BLUE DOLPHIN ENERGY CO
Form 10QSB
August 13, 2007

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB

þ Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: **June 30, 2007**
o Transition Report Under Section 13 or 15(d) of the Exchange Act
For the transition period from _____________ to_____________
Commission File Number: **0-15905**

BLUE DOLPHIN ENERGY COMPANY
(Exact name of small business issuer as specified in its charter)

Delaware	**73-1268729**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

801 Travis Street, Suite 2100, Houston, Texas 77002
(Address of principal executive offices)
(713) 227-7660
(Issuer s telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of August 10, 2007, there were 11,567,813 shares of the registrant s common stock, par value $.01 per share, outstanding.
Transitional Small Business Disclosure Format (Check one): Yes o No þ

1

TABLE OF CONTENTS

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The condensed consolidated financial statements of Blue Dolphin Energy Company and its subsidiaries (referred to herein, with its predecessors and subsidiaries, as Blue Dolphin, we, us and our) included herein have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) and, in the opinion of management, reflect all adjustments necessary to present a fair statement of operations, financial position and cash flows. We follow the full-cost method of accounting for oil and gas properties, wherein costs incurred in the acquisition, exploration and development of oil and gas reserves are capitalized. We believe that the disclosures are adequate and the information presented is not misleading, although certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

Our accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-KSB for the year ended December 31, 2006.

Remainder of Page Intentionally Left Blank

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
UNAUDITED

	June 30, 2007
ASSETS	
Current assets:	
Cash and cash equivalents	$ 5,330,866
Accounts receivable	437,680
Prepaid expenses and other current assets	682,659
Total current assets	6,451,205
Property and equipment, at cost:	
Oil and gas properties (full-cost method)	715,970
Pipelines	4,595,073
Onshore separation and handling facilities	1,919,402
Land	860,275
Other property and equipment	271,638
	8,362,358
Less:	
Accumulated depletion, depreciation, amortization and impairment	3,717,646
	4,644,712
Other assets	10,640
TOTAL ASSETS	$ 11,106,557
LIABILITIES AND STOCKHOLDERS EQUITY	
Current liabilities:	
Accounts payable	$ 408,236
Accrued expenses and other liabilities	134,592
Current portion of asset retirement obligations	297,509
Total current liabilities	840,337
Long-term liabilities:	
Asset retirement obligations	1,745,549
Total long-term liabilities	1,745,549
Common stock, ($.01 par value, 25,000,000 shares authorized, 11,567,813 shares issued and outstanding	115,678
Additional paid-in capital	31,887,613

Accumulated deficit	(23,482,620)
	8,520,671
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 11,106,557

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006
Revenue from operations:		
Pipeline operations	$ 531,762	$ 400,267
Oil and gas sales	89,165	685,802
Total revenue	620,927	1,086,069
Cost of operations:		
Pipeline operating expenses	562,692	295,115
Lease operating expenses	90,464	121,263
Depletion, depreciation and amortization	152,203	112,151
General and administrative	636,830	476,525
Accretion expense	30,391	26,444
Total costs and expenses	1,472,580	1,031,498
Income (loss) from operations	(851,653)	54,571
Other income (expense):		
Interest and other expense		(18,365)
Interest and other income	67,168	31,889
Income (loss) before income taxes	(784,485)	68,095
Income taxes		
Net income (loss)	$ (784,485)	$ 68,095
Income (loss) per common share		
Basic	$ (0.07)	$ 0.01
Diluted	$ (0.07)	$ 0.01
Weighted average number of common shares outstanding		
Basic	11,560,361	11,422,625
Diluted	11,560,361	11,531,377

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Revenue from operations:		
Pipeline operations	$ 1,091,575	$ 719,675
Oil and gas sales	384,348	1,467,418
Total revenue	1,475,923	2,187,093
Cost of operations:		
Pipeline operating expenses	1,078,863	522,604
Lease operating expenses	157,782	215,824
Depletion, depreciation and amortization	289,379	227,460
General and administrative	1,120,192	969,662
Accretion expense	60,782	52,888
Total costs and expenses	2,706,998	1,988,438
Income (loss) from operations	(1,231,075)	198,655
Other income (expense):		
Interest and other expense		(31,775)
Interest and other income	127,402	38,180
Income (loss) before income taxes	(1,103,673)	205,060
Income taxes		
Net income (loss)	$ (1,103,673)	$ 205,060
Income (loss) per common share		
Basic	$ (0.10)	$ 0.02
Diluted	$ (0.10)	$ 0.02
Weighted average number of common shares outstanding		
Basic	11,558,754	10,847,840
Diluted	11,558,754	10,943,092

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	Six Months Ended, June 30,	
	2007	2006
OPERATING ACTIVITIES		
Net income (loss)	$ (1,103,673)	$ 205,060
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depletion, depreciation and amortization	289,379	227,460
Accretion of asset retirement obligations	60,782	52,888
Common stock issued for services	39,160	15,000
Compensation from issuance of stock options	13,440	
Changes in operating assets and liabilities:		
Accounts receivable	736,639	394,145
Prepaid expenses and other assets	(334,133)	(217,607)
Abandonment costs incurred	(32,133)	
Accounts payable and accrued expenses	184,482	344,566
Net cash provided by (used in) operating activities	(146,057)	1,021,512
INVESTING ACTIVITIES		
Exploration and development costs		(14,810)
Property, equipment and other assets	(22,224)	(235,934)
Investment in unconsolidated affiliates		(897)
Net cash used in investing activities	(22,224)	(251,641)
FINANCING ACTIVITIES		
Proceeds from the sale of common stock, net of offering costs		3,848,324
Payments on borrowings		(510,000)
Net cash provided by financing activities		3,338,324
Increase (decrease) in cash and cash equivalents	(168,281)	4,108,195
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,499,147	1,297,088
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 5,330,866	$ 5,405,283

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
JUNE 30, 2007

1. Liquidity

At June 30, 2007, our available working capital was approximately $5.6 million, a decrease of $1.1 million from approximately $6.7 million of working capital at December 31, 2006 and equal to working capital at June 30, 2006. Working capital at the end of the first half of 2006 reflects cash inflows from private placements completed in March and April 2006. Working capital at the end of the first half of 2007 reflects the impact of significantly reduced revenues from sales of oil and gas partially offset by increased revenues from our pipeline operations.

The Blue Dolphin System is currently transporting approximately 28 MMcf per day and the GA 350 Pipeline is also currently transporting approximately 19 MMcf per day. All five of the shippers we contracted with during 2005 and 2006 have commenced deliveries. Four of the shippers are delivering production into the Blue Dolphin System and one of the shippers is delivering production into the GA 350 Pipeline. One of the five new shippers began deliveries into the Blue Dolphin System in August 2005. In 2006, one new shipper began deliveries into the Blue Dolphin System in each of May, June and November. Also, in July 2006, a shipper that has delivered production into the Blue Dolphin System for a number of years, successfully recompleted an existing well, resulting in an increase of daily production. One of the new shippers began deliveries into the GA 350 Pipeline in December 2006. As a result of the new volumes, the Blue Dolphin System transported an average of 21.2 MMcf per day during the first half of 2007 as compared to 11.2 MMcf per day during the first half of 2006. The GA 350 Pipeline transported an average of 18.7 MMcf per day during the first half of 2007 as compared to 8.2 MMcf per day during the first half of 2006.

In June 2007, we entered into two agreements for the provision of transportation and handling services representing production from three wells. One of the new shippers commenced deliveries of production into the GA 350 Pipeline in late June 2007. The shipper representing the two wells covered by the second signed agreement commenced deliveries of production into the Blue Dolphin System in July 2007.

The revenues from our working interest in High Island Block 37 are declining as the rate of production declines. One of two producing wells shut in during April 2007 and production from that well has not been re-established. The aggregate rate of production from High Island Block 37 has declined by approximately 55% since the end of the first half of 2006. High Island Block 37 is currently producing approximately 5 MMcf per day from one well. We believe that production from the currently producing High Island Block 37 well could continue to produce into early 2008, however, the well could deplete faster than currently anticipated or could develop production problems resulting in the cessation of production. The High Island Block A-7 well is currently shut-in and may have reached the end of its productive life. During the second quarter 2007, a well in which we had previously earned a 2.5% working interest was drilled successfully in the High Island area. We do not know the level of production to expect from this well. We expect production to commence in the fourth quarter 2007. Without the revenues and resulting cash inflows we receive from oil and gas sales, we may not be able to generate sufficient cash from operations to cover our operating and general and administrative expenses.

In March and April 2006, we entered into stock purchase agreements with accredited investors for the private placement of 1,571,432 shares of our common stock. Net proceeds from these offerings after commissions and expenses were approximately $3.8 million. The net proceeds are being used for general corporate and working capital purposes, but may be used for possible acquisitions and expansions of our facilities. Despite the decline in revenues from sales of oil and gas we believe we have sufficient liquidity to satisfy our working capital requirements through June 30, 2008.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
JUNE 30, 2007
CONTINUED

The net cash provided by or used in operating, investing and financing activities is summarized below:

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
	($ in thousands)	
Net cash provided by (used in):		
Operating activities	$ (146)	$ 1,022
Investing activities	(22)	(252)
Financing activities		3,338
Net increase (decrease) in cash	$ (168)	$ 4,108

2. Commitments and Contingencies

Pursuant to the terms of an employment agreement effective May 1, 2007, we are obligated to pay a base salary of $175,000 per year for the three-year term of the agreement.

From time to time we are involved in various claims and legal actions arising in the ordinary course of business. In our opinion, the ultimate disposition of these matters will not have a material adverse effect on our financial position, results of operations or cash flows.

3. Earnings per Share

We apply the provisions of Statement of Financial Accounting Standards No. 128, *Earnings per Share* (SFAS 128). SFAS 128 requires the presentation of basic earnings per share (EPS) which excludes the dilutive effect of securities or contracts to issue common stock, and is computed by dividing net income (loss) available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. SFAS 128 requires dual presentation of basic EPS and diluted EPS on the face of the income statement and requires a reconciliation of the numerators and denominators of basic EPS and diluted EPS. Diluted EPS is computed by dividing net income (loss) available to common stockholders by the diluted weighted average number of common shares outstanding, which includes the potential dilution that could occur if securities or other contracts to issue common stock were converted to common stock that then shared in the earnings of the entity.

Employee stock options and stock warrants outstanding were not included in the computation of diluted earnings per share for the three and six months ended June 30, 2007 because their assumed exercise and conversion would have an antidilutive effect on the computation of diluted loss per share.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
JUNE 30, 2007
CONTINUED

	Net Income (Loss)	Weighted-Average Number of Common Shares Outstanding and Potential Dilutive Common Shares	Per Share Amount
Three months ended June 30, 2007			
Basic and diluted loss per share	$ (784,485)	11,560,361	$ (0.07)
Three months ended June 30, 2006			
Basic earnings per share	$ 68,095	11,422,625	$ 0.01
Effect of dilutive potential common shares		108,752	
Diluted earnings per share	$ 68,095	11,531,377	$ 0.01
Six months ended June 30, 2007			
Basic and diluted loss per share	$ (1,103,673)	11,558,754	$ (0.10)
Six months ended June 30, 2006			
Basic earnings per share	$ 205,060	10,847,840	$ 0.02
Effect of dilutive potential common shares		95,252	
Diluted earnings per share	$ 205,060	10,943,092	$ 0.02

Remainder of Page Intentionally Left Blank

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
JUNE 30, 2007
CONTINUED

4. Business Segment Information

Our income producing operations are conducted in two principal business segments: pipeline operations and oil and gas exploration and production. There were no intersegment revenues during the periods presented. Information concerning these segments for the three and six months ended June 30, 2007 and 2006 and at June 30, 2007, is as follows:

	Revenues	Operating Income (Loss)(*)	Depletion, Depreciation and Amortization
Three months ended June 30, 2007:			
Pipeline operations	$ 531,762	(583,451)	105,360
Oil and gas exploration and production	89,165	(161,239)	45,484
Other		(106,963)	1,359
Consolidated	$ 620,927	(851,653)	152,203
Other income, net		67,168	
Loss before income taxes		(784,485)	
Three months ended June 30, 2006:			
Pipeline operations	$ 400,267	(115,407)	78,945
Oil and gas exploration and production	685,802	332,376	31,087
Other		(162,398)	2,119
Consolidated	$ 1,086,069	54,571	112,151
Other income, net		13,524	
Income before income taxes		68,095	
Six months ended June 30, 2007:			
Pipeline operations	$ 1,091,575	(898,309)	207,328
Oil and gas exploration and production	384,348	(96,012)	79,373
Other		(236,754)	2,678
Consolidated	$ 1,475,923	(1,231,075)	289,379
Other income, net		127,402	
Loss before income taxes		(1,103,673)	
Six months ended June 30, 2006:			

Pipeline operations	$ 719,675	(233,751)	157,891
Oil and gas exploration and production	1,467,418	716,202	65,116
Other		(283,796)	4,453
Consolidated	$ 2,187,093	198,655	227,460
Other income, net		6,405	
Income before income taxes		205,060	

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
JUNE 30, 2007
CONTINUED

	June 30, 2007
Identifiable assets:	
Pipeline operations	$ 5,605,922
Oil and gas exploration and production	267,393
Other	5,233,242
Consolidated	$ 11,106,557

(*) Consolidated income or loss from operations includes $105,604 and $160,280 in unallocated general and administrative expenses, and $1,359 and $2,119 in unallocated depletion, depreciation and amortization for the three months ended June 30, 2007 and 2006, respectively. All unallocated amounts are included in Other.

Consolidated income or loss from operations includes $234,077 and $279,343 in unallocated general and administrative expenses, and $2,678 and

$4,453 in unallocated depletion, depreciation and amortization for the six months ended June 30, 2007 and 2006, respectively. All unallocated amounts are included in Other.

5. Stock-Based Compensation

Effective April 14, 2000, after approval by our stockholders, we adopted the 2000 Stock Incentive Plan (the 2000 Plan). Under the 2000 Plan, we are able to make awards of stock-based compensation. The number of shares of common stock reserved for grants of incentive stock options (ISOs) and other stock based awards was increased from 650,000 shares to 1,200,000 shares after approval by our stockholders at the 2007 Annual Meeting of Stockholders, which was held on May 30, 2007. Prior to the increase in the number of shares reserved for incentive stock awards, we had granted 550,460 stock options under the 2000 Plan. After the increase in the shares reserved for grants, 649,540 shares were available for future grants. Options granted under the 2000 Plan must be exercised within 10 years from the date of grant. The exercise price of ISOs cannot be less than 100% of the fair market value of a share of our common stock on the grant date. All ISO awards granted in previous years vested immediately. Although the 2000 Plan provides for the granting of other incentive awards, only ISOs and non-statutory stock options have been issued under the 2000 Plan. The 2000 Plan is administered by the Compensation Committee of our Board of Directors.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (Revised), *Share-Based Payments* (SFAS 123(R)) utilizing the modified prospective approach. Prior to the adoption of SFAS 123(R) we accounted for stock option grants in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees* (the intrinsic value method), and accordingly, recognized no compensation expense when stock options were granted with an exercise price equal to the fair market value of a share of our common stock on the grant date.

Under the modified prospective approach, SFAS 123(R) applies to new awards and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased, or cancelled. Under the modified prospective approach, had there been any awards granted during 2006, and had there been awards granted prior to January 1, 2006 which were not yet fully vested, compensation expense recognized in 2006 would have included compensation cost for all share-based payments granted prior to, but not yet vested, based on the grant date fair value estimated in accordance with the original provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
JUNE 30, 2007
CONTINUED

date fair value estimated in accordance with the provisions of SFAS 123(R). Prior periods were not restated to reflect the impact of adopting the new standard.

SFAS 123(R) states that a tax deduction is permitted for stock options exercised during the period, generally for the excess of the price at which stock issued from exercise of the options are sold over the exercise price of the options. Tax benefits are to be shown on the Statement of Cash Flows as financing cash inflows. Any tax deductions we receive from the exercise of stock options for the foreseeable future will be applied to the valuation allowance in determining our net operating loss carryforward.

Additionally, we utilized the alternate transition method (simplified method) for calculating the beginning balance in the pool of excess tax benefits in accordance with FASB Staff Position FAS123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*.

Pursuant to SFAS 123(R), we estimate the fair value of stock options granted on the date of grant using the Black-Scholes-Merton option-pricing model. The following assumptions were used to determine the fair value of stock options granted during the six months ended June 30, 2007. There were no stock options granted during the six months ended June 30, 2006.

	Six Months Ended June 30,	
	2007	2006
Stock options granted	200,000	0
Risk-free interest rate	4.80%	N/A
Expected term, in years	5.97	N/A
Expected volatility	92.4%	N/A
Dividend yield	0.00%	0.00%

Expected volatility used in the model is based on the historical volatility of our common stock and is weighted 50% for the historical volatility over a period equal to the expected term and 50% for the historical volatility over the past two years prior to the grant date. This weighting method was chosen to account for the significant changes in our financial condition beginning approximately two years ago. These changes include the improvement in our working capital, improved pipeline throughput and the reduction and ultimate elimination of our outstanding debt.

The expected term of options granted used in the model represents the period of time that options granted are expected to be outstanding. The method used to estimate the expected term is the simplified method as allowed under the provisions of the Securities and Exchange Commission s Staff Accounting Bulletin No. 107. This number is calculated by taking the average of the sum of the vesting period and the original contract term. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the date of the grant. As we have not declared dividends on our common stock since we became a public entity, no dividend yield was used. No forfeiture rate was assumed due to the forfeiture history for this type of award. Actual value realized, if any, is dependent on the future performance of our common stock and overall stock market conditions. There is no assurance that the value realized by an optionee will be at or near the value estimated by the Black-Scholes-Merton option-pricing model.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
JUNE 30, 2007
CONTINUED

At June 30, 2007, there were a total of 343,997 shares of common stock reserved for issuance upon exercise of outstanding options under the 2000 Plan. A summary of the status of our stock options granted to key employees, officers and directors, for the purchase of shares of common stock, is as follows:

	Six Months Ended June 30, 2007			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding at the beginning of the period	143,997	$ 1.56		
Options granted	200,000	$ 3.03		
Options exercised		$ 0.00		
Options expired or cancelled		$ 0.00		
Options outstanding at the end of the period	343,997	$ 2.41	8.1	$ 273,291
Options exercisable at the end of the period	143,997	$ 1.56	5.5	$ 273,291

The following summarizes the net change in non-vested stock options for the six months ended June 30, 2007:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2007		$ 0.00
Granted	200,000	$ 2.35
Canceled or expired		$ 0.00
Vested		$ 0.00
Nonvested at June 30, 2007	200,000	$ 2.35

As of June 30, 2007, there was $456,960 of unrecognized compensation cost related to nonvested share-based compensation arrangements granted under existing stock option plans. This cost is expected to be recognized on a straight line basis over a period of 34 months, which is the remaining vesting period.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
JUNE 30, 2007
CONTINUED

6. Warrants

In March and April 2006, we completed private placements for shares of our common stock and we issued warrants to purchase an aggregate of 32,572 shares of common stock. These warrants were immediately exercisable upon issuance.

These issuances were accounted for pursuant to SFAS 123(R) and Emerging Issues Task Force No. 00-18, *Accounting Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees* using the Black-Scholes-Merton option-pricing model. A fair value of approximately $69,000 was netted against the gross proceeds of the private placements as a direct offering cost.

At June 30, 2007, the range of warrant prices for shares of common stock underlying the warrants and the weighted-average remaining contractual life was as follows:

Warrants Outstanding, Fully Vested and Exercisable at June 30, 2007		
Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years
16,440	$ 5.88	1.8

The 8,572 warrants issued in March 2006 with the first private placement were exercised in 2006 at a price of $1.93 per share. The warrants outstanding represent the unexercised portion of 24,000 warrants issued in the second private placement in April 2006, of which 7,560 of the warrants were exercised in 2006 at an exercise price of $5.39 per share. The exercise price varies based on the following conditions: (i) until the later of the registration of the warrants or one year from the issue date, 110% of the purchase price of $4.90 per share; (ii) from the later of (x) the registration of the warrants and (y) one year, until two years from the issue date, 120% of the purchase price of $4.90 per share; and (iii) after the expiration of two years from the issue date of the warrants, 130% of the purchase price of $4.90 per share.

7. Recent Accounting Developments

In February 2007, the Financial Accounting Standards Board (the FASB) issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS 159). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. The FASB s stated objective in issuing this standard is as follows: to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
JUNE 30, 2007
CONTINUED

The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option: (i) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (ii) is irrevocable (unless a new election date occurs); and (iii) is applied only to instruments and not to portions of instruments.

SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements* (SFAS 157). We are currently assessing the impact of SFAS 159 on our consolidated financial statements.

In September 2006, SFAS 157 was issued by the FASB. This new standard provides guidance for using fair value to measure assets and liabilities. The FASB believes the standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances.

Currently, over 40 accounting standards within GAAP require (or permit) entities to measure assets and liabilities at fair value. Prior to SFAS 157, the methods for measuring fair value were diverse and inconsistent, especially for items that are not actively traded. The standard clarifies that for items that are not actively traded, such as certain kinds of derivatives, fair value should reflect the price in a transaction with a market participant, including an adjustment for risk, not just the company s mark-to-model value. SFAS 157 also requires expanded disclosure of the effect on earnings for items measured using unobservable data.

Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. In this standard, FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity s own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy.

The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. We are currently assessing the impact of SFAS 157 on our financial statements.

In July 2006, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109* (FIN 48), was issued. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (SFAS 109). FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
JUNE 30, 2007
CONTINUED

expected to be taken in a tax return. The new FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is a recognition process whereby the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is a measurement process whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Earlier application is permitted as long as the enterprise has not yet issued financial statements, including interim financial statements, in the period of adoption. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year.

The provisions of FIN 48 have been applied to all of our material tax positions taken through the date of adoption and during the interim quarterly period ended June 30, 2007. We have determined that all of our material tax positions taken in our income tax returns and the positions we expect to take in our future income tax filings meet the more likely-than-not recognition threshold prescribed by FIN 48. In addition, we have determined that, based on our judgment, none of these tax positions meet the definition of uncertain tax positions that are subject to the non-recognition criteria set forth in the new pronouncement.

In May 2006, the State of Texas enacted a new business tax that is imposed on gross revenues to replace the State s current franchise tax regime. The new legislation s effective date is January 1, 2008, which means that our first Texas margins tax (TMT) return will not become due until May 15, 2008 and will be based on our 2007 operations. Although the TMT is imposed on an entity s gross revenues rather than on its net income, certain aspects of the tax make it similar to an income tax. In accordance with the guidance provided in SFAS 109, we have properly determined the impact of the newly-enacted legislation in the determination of our reported state current and deferred income tax liability.

On September 13, 2006, the SEC staff issued Staff Accounting Bulletin No. 108, which adds Section N to Topic 1, Financial Statements *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). The SEC staff provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for the purposes of determining whether the current year s financial statements are materially misstated. In providing this guidance, the SEC staff references both the iron curtain and rollover approaches to quantifying a current year misstatement for purposes of determining its materiality. The iron curtain approach focuses on how the current year s balance sheet would be affected in correcting a misstatement without considering the year(s) in which the misstatement originated. The rollover approach focuses on the amount of the misstatement that originated in the

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
JUNE 30, 2007
CONTINUED

current year s income statement. The SEC staff indicates in SAB 108 that registrants must quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. In other words, both the iron curtain approach and rollover approach should be used in assessing the materiality of a current year misstatement. SAB 108 provides that once a current year misstatement has been quantified, the guidance in Staff Accounting Bulletin No. 99, Section M, Topic 1, Financial Statements *Materiality* (SAB 99), should be applied to determine whether the misstatement is material and should result in an adjustment to the financial statements.

If correcting a misstatement in the current year would materially misstate the current year s income statement, the SEC staff indicates that the prior year financial statements should be adjusted. In addition, adjusting for one misstatement in the current year may alter the amount of the misstatement attributable to prior years that exists in the current year s financial statements. If adjusting for the resultant misstatement is material to the current year s financial statements, the SEC staff again indicates that the prior year financial statements should be adjusted. These adjustments to prior year financial statements are necessary even though such adjustments were appropriately viewed as immaterial in the prior year. In making these adjustments, previously filed reports do not need to be amended. Instead, the adjustments should be reflected the next time the registrant would otherwise be filing those prior year financial statements. It should be noted that if, in the current year, a registrant identifies a misstatement in the prior year financial statements and determines that the misstatement is material to those prior year financial statements, the registrant would be required to restate for the material misstatement in accordance with FASB Statement No. 154, *Accounting Changes and Error Corrections* (SFAS 154).

If a registrant has historically been using either the iron curtain approach or the rollover approach and, upon application of the guidance of SAB 108, determines that there is a material misstatement in its financial statements, the SEC staff will not require the registrant to restate its prior year financial statements provided that: (a) management properly applied the approach it previously used as its accounting policy and (b) management considered all relevant qualitative factors in its materiality assessment. If the registrant does not elect to restate its financial statements for the material misstatements that arise in connection with application of the guidance in SAB 108, then for fiscal years ending after November 15, 2006, it must recognize the cumulative effect of applying SAB 108 in the current year beginning balances of the affected assets and liabilities with a corresponding adjustment to the current year opening balance in retained earnings. Certain disclosures are required in this situation. SAB 108 provides additional transition guidance if it is adopted early in an interim period. The adoption of SAB 108 did not have a material effect on our consolidated financial statements.

Remainder of Page Intentionally Left Blank

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statements

Certain of the statements included in this quarterly report on Form 10-QSB, including those regarding future financial performance or results or that are not historical facts, are forward-looking statements as that term is defined in Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words expect, plan, believe, anticipate, project, estimate, and similar expressions are intended identify forward-looking statements. Blue Dolphin Energy Company (referred to herein, with its predecessors and subsidiaries, as Blue Dolphin, we, us and our) cautions readers that these statements are not guarantees of future performance or events and such statements involve risks and uncertainties that may cause actual results and outcomes to differ materially from those indicated in forward-looking statements. Some of the important factors, risks and uncertainties that could cause actual results to vary from forward-looking statements include:

- the level of utilization of our pipelines;
- availability and cost of capital;
- actions or inactions of third party operators for properties where we have an interest;
- the risks associated with exploration;
- the level of production from oil and gas properties;
- oil and gas price volatility;
- uncertainties in the estimation of proved reserves and in the projection of future rates of production and timing of development expenditures;
- regulatory developments; and
- general economic conditions.

Additional factors that could cause actual results to differ materially from those indicated in the forward-looking statements are discussed under the caption Risk Factors in our annual report on Form 10-KSB for the year ended December 31, 2006. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date thereof. We undertake no duty to update these forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the additional factors which may affect our business, including the disclosures made under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations in this report.

Executive Summary

We are engaged in two lines of business: (i) provision of pipeline transportation services to producers/shippers, and (ii) oil and gas exploration and production. We conduct our operations through our subsidiaries. Our assets are located offshore and onshore in the Texas Gulf Coast area. Our goal is to create greater long-term value for our stockholders by increasing the utilization of our existing pipeline assets, acquiring additional strategic assets to diversify our asset base and improve our competitive position. Although we are primarily focused on acquisitions of pipeline assets, we will continue to review and evaluate opportunities to acquire oil and gas properties.

During the first half of 2007, we benefited from an increase in revenues from our pipeline operations resulting from the commencement of deliveries of production from new shippers on both the Blue Dolphin System and the GA 350 Pipeline during 2006. The level of throughput increased on the Blue Dolphin System from the addition of three shippers in 2006 and on the GA 350 Pipeline from the addition of one shipper in 2006. Additionally, in June 2007, we entered into agreements for the provision of

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

transportation and handling services with two new shippers representing production from three wells. One of the shippers commenced deliveries of production into the GA 350 Pipeline in late June 2007. The shipper representing the two wells covered by the second agreement commenced deliveries of production into the Blue Dolphin System in July 2007. The Blue Dolphin System is currently transporting approximately 28 MMcf per day and the GA 350 Pipeline is currently transporting approximately 19 MMcf per day.

Our working interest in High Island Block 37 continues to generate revenues for us, however, one of the two wells shut in during April 2007 and production from that well has not been re-established. High Island Block 37 is currently producing an aggregate of approximately 5 MMcf per day from one well. The High Island Block A-7 well experienced production difficulties during the second quarter of 2007. It has produced only intermittently since late-April and is currently shut in. Production data had previously indicated that the well was nearing the end of its productive life and this point may now have been reached. During the second quarter, a well in which we had previously earned a 2.5% working interest was drilled successfully in the High Island area. We do not know the level of production to expect from this well. We expect production to commence in the fourth quarter 2007.

Despite the recent throughput gains and expected future throughput from recently acquired customers, our pipeline assets remain significantly under-utilized. The Blue Dolphin System is currently operating at approximately 14% of capacity and the GA 350 Pipeline is currently operating at approximately 29% of capacity. Production declines, temporary stoppages or cessations of production from wells tied into our pipelines or from the High Island Block 37 well could have a material adverse effect on our cash flows and liquidity if the resulting revenue declines are not offset by revenues from other sources. Due to our small size, geographically concentrated asset base and limited capital resources, any negative event has the potential to significantly impact our financial condition. We are continuing our efforts to increase the utilization of our existing assets and acquire additional assets that will alleviate and diversify the risks to our cash flows and be accretive to earnings.

Liquidity and Capital Resources

At the end of the second quarter 2007, we had working capital of approximately $5.6 million compared to approximately $6.7 million at the end of 2006. At the end of the second quarter of 2006, working capital was approximately $5.6 million. All outstanding notes payable were retired by the end of 2006. The increase in working capital during 2006 was primarily the result of proceeds received from two private placements that were completed in the first half of 2006, revenues from oil and gas sales and increased revenues from our pipeline operations.

Remainder of Page Intentionally Left Blank

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

The following table summarizes our financial position for the periods indicated (in thousands):

	June 30, 2007		December 31, 2006	
	Amount	%	Amount	%
Working capital	$ 5,610	55	$ 6,652	57
Property and equipment, net	4,645	45	4,912	43
Other noncurrent assets	11	0	22	
Total	$ 10,266	100	$ 11,586	100
Long-term liabilities	$ 1,745	17	$ 2,014	17
Stockholders equity	8,521	83	9,572	83
Total	$ 10,266	100	$ 11,586	100

Throughput on the Blue Dolphin System and the GA 350 Pipeline increased significantly during 2006. All five of the shippers we contracted with during 2005 and 2006 have commenced deliveries into our pipelines. Four of these shippers are delivering production into the Blue Dolphin System and one of the shippers is delivering production into the GA 350 Pipeline. One of the shippers began deliveries into the Blue Dolphin System in August 2005. In 2006, one shipper began deliveries into the Blue Dolphin System in each of May, June and November. A shipper began deliveries into the GA 350 Pipeline in December 2006. Additionally, in July 2006, a shipper that has delivered production into the Blue Dolphin System for a number of years, successfully recompleted an existing well, resulting in an increase of daily production from that well.

In June 2007, we entered into two agreements for the provision of transportation and handling services representing production from three wells. One of the new shippers commenced deliveries of production into the GA 350 Pipeline in late June 2007. The shipper representing the two wells covered by the second signed agreement commenced deliveries of production into the Blue Dolphin System in July 2007.

The average rates of throughput on the Blue Dolphin System and the GA 350 Pipeline during the first half of 2007 were significantly higher than the first half of 2006. The Blue Dolphin System transported an average of 21.2 MMcf per day during the first half of 2007 as compared to 11.2 MMcf per day during the first half of 2006. Average throughput on the GA 350 Pipeline was 18.7 MMcf per day during the first half of 2007 as compared to 8.2 MMcf per day during the first half of 2006. First half revenues from pipeline operations increased to $1,091,575 in 2007 as compared to $719,675 in 2006, due to the higher volumes.

We have significant available capacity on the Blue Dolphin System, the GA 350 Pipeline and the inactive Omega Pipeline. We believe that the pipelines are in geographic market areas that are experiencing an increased level of interest by oil and gas operators. This assessment is based on leasing, drilling activity and discoveries in the lease blocks near the pipelines, as well as information obtained directly from the operators of properties near our pipelines. There have been nine discoveries near the Blue Dolphin System and the GA 350 Pipeline during the period from 2005 through early 2007. We have entered into contracts for transportation and handling services with operators of eight of the nine discoveries, and are in negotiations with the operator of the other discovery.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

Our financial condition continues to be adversely affected by the low utilization of our pipeline assets. Ultimately, the future utilization of our pipelines and related facilities will depend upon the success of drilling programs around our pipelines, as well as attraction and retention of producers/shippers to the pipeline systems. If we are successful in our efforts to attract additional reserves to our pipelines, we would gain additional throughput on the pipelines, resulting in additional revenues. Additional throughput will be required to offset the natural decline in throughput from existing wells as reserves are depleted.

The revenues from our working interest in High Island Block 37 are declining as the rate of production declines as expected from the remaining producing well. Production from High Island Block 37 has declined by approximately 55% since the end of the first half of 2006. We believe that production from the remaining High Island Block 37 well could continue into early 2008, however, the well could deplete faster than currently anticipated or could develop production problems resulting in the cessation of production. The High Island Block A-7 well is currently shut in and may have reached the end of its productive life. During the second quarter, a well in which we had previously earned a 2.5% working interest was drilled successfully in the High Island area. We do not know the level of production to expect from this well. We expect production to commence in the fourth quarter 2007. Without the revenues and resulting cash inflows we receive from oil and gas sales, we may not be able to generate sufficient cash from operations to cover our operating and general and administrative expenses.

We recognized gross oil and gas sales revenues of $174,287 and $667,698 for the six months ended June 30, 2007 and 2006, respectively, associated with our 2.8% contractual working interest in two wells in High Island Block 37. One High Island Block 37 well is currently producing at a rate of approximately 5 MMcf per day and the second well is shut in. We recognized gross oil and gas sales revenues of $210,061 and $799,720 for the six months ended June 30, 2007 and 2006, respectively, associated with our approximate 8.9% working interest in the High Island Block A-7 well.

In early-2005, we entered into an amendment to our purchase agreement with MCNIC to acquire MCNIC s one-third interest in the Blue Dolphin System and the inactive Omega Pipeline. Pursuant to the terms of the amendment, we issued a new promissory note in the principal amount of $250,000 and either (i) MCNIC could have received a contingent payment of up to $500,000 from 50% of the net profits, if any, realized from the one-third interest through December 31, 2006, or (ii) the principal amount of the new promissory note could have been increased by up to $500,000 if 50% or more of our 83% interest in the assets was sold before December 31, 2006. A contingent payment from 50% of the net profits was not triggered nor did we sell the assets. As a result, the $500,000 contingent portion of the promissory note was extinguished effective December 31, 2006.

Remainder of Page Intentionally Left Blank

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

The following table summarizes certain of our contractual obligations and other commercial commitments at June 30, 2007 (in thousands):

	Payments Due by Period				
	Total	1 Year or Less	1-3 Years	3-5 Years	5 Years or More
Operating leases	$ 411	$ 103	$ 188	$ 120	$
Employment agreement	495	87	408		
Asset retirement obligations	2,043	298	86		1,659
Total contractual obligations and other commercial commitments	$ 2,949	$ 488	$ 682	$ 120	$ 1,659

In March and April 2006, we entered into stock purchase agreements with accredited investors for the private placement of 1,571,432 shares of our common stock. Net proceeds from these offerings after commissions and expenses were approximately $3.8 million. The net proceeds are being used for general corporate and working capital purposes, but may be used for possible acquisitions and expansions of our facilities.

Results of Operations

For the three months ended June 30, 2007 (the current quarter), we reported a net loss of $784,485 compared to net income of $68,095 for the three months ended June 30, 2006 (the previous quarter). For the six months ended June 30, 2007 (the current period), we reported a net loss of $1,103,673 compared to net income of $205,060 for the six months ended June 30, 2006 (the previous period).

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Revenue from Pipeline Operations. Revenues from pipeline operations increased by $131,495, or 33%, in the current quarter to $531,762. Revenues in the current quarter from the Blue Dolphin System totaled approximately $447,000 compared to approximately $359,000 in the previous quarter primarily as a result of throughput from three new shippers who began deliveries in the second half of 2006. Daily gas volumes transported on the Blue Dolphin System averaged approximately 20 MMcf per day in the current quarter compared to approximately 13 MMcf per day in the previous quarter. Revenues on the GA 350 Pipeline increased by approximately $43,000 in the current quarter due to an increase in average daily gas volumes transported to approximately 20 MMcf per day in the current quarter from approximately 9 MMcf per day in the previous quarter.

Revenue from Oil and Gas Sales. Revenues from oil and gas sales decreased by $596,637, or 87%, to $89,165 in the current quarter due to the natural decline in the rate of production from High Island Block 37 and the cessation of production from High Island Block A-7 combined with a decline in the realized price of natural gas. Revenue breakdown for the current quarter by field was $20,001 for High Island Block A-7 and $69,164 for High Island Block 37. The sales mix by product was 85% gas and 15% condensate and natural gas liquids. Our average realized gas price per Mcf in the current quarter was $6.40 compared to $8.43 in the previous quarter. Our average realized price per barrel of condensate was $67.08 in the current quarter compared to $71.46 in the previous quarter.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

Pipeline Operating Expenses. Pipeline operating expenses increased by $267,577 to $562,692 in the current quarter. The increase was due primarily to costs of approximately $153,000 to repair the compressor at Platform C in Galveston Area Block 288, approximately $55,000 for painting and repairs to the office, buildings and barge dock at the Freeport facility and increased insurance costs of approximately $45,000 due to higher renewal rates.

Lease Operating Expenses. Lease operating expenses decreased $30,799 in the current quarter to $90,464 primarily due to the cessation of production at High Island Block A-7.

Depletion, Depreciation and Amortization. Depletion, depreciation and amortization expense increased by $40,052 in the current quarter to $152,203. Depreciation associated with estimated dismantlement costs increased by approximately $21,000 due to an increase in asset retirement obligations.

General and Administrative Expenses. General and administrative expenses increased $160,305 in the current quarter to $636,830 due to officer bonuses of $60,000, 401(k) matching of approximately $23,000 and costs associated with a staff addition. Also, approximately $67,000 of expense was recognized related to our previous lease agreements for the 801 Travis location.

Interest and Other Expense. Interest and other expense decreased $18,365 in the current quarter to $0 due to the elimination of our outstanding debt.

Interest and Other Income. Interest and other income increased $35,279 in the current quarter due to an increase in money market funds and an increase in the interest rate earned on those funds.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Revenue from Pipeline Operations. Revenues from pipeline operations increased by $371,900, or 52%, in the current period to $1,091,575. Revenues in the current period from the Blue Dolphin System totaled approximately $935,000 compared to approximately $640,000 in the previous period primarily as a result of throughput from three new shippers who began deliveries during 2006. Daily gas volumes transported through the Blue Dolphin System averaged approximately 21 MMcf per day in the current period compared to approximately 11 MMcf per day in the previous period. Revenues on the GA 350 Pipeline increased by approximately $77,000 in the current period primarily due to an increase in average daily gas volumes transported to approximately 19 MMcf per day in the current period from approximately 8 MMcf per day in the previous period.

Revenue from Oil and Gas Sales. Revenues from oil and gas sales decreased by $1,083,070 to $384,348 in the current period. High Island Block A-7 ceased production in the current period and one well at High Island Block 37 ceased production in the current period, leaving one producing well. Revenues were also negatively affected by a decrease in the realized price of natural gas. Revenue breakdown for the current period by field was approximately $210,061 for High Island Block A-7 and $174,287 for High Island Block 37. The sales mix by product was 90% gas and 10% condensate and natural gas liquids. Our average realized gas price per Mcf in the current period was $6.85 compared to $8.50 in the previous period. Our average realized price per barrel of condensate was $55.01 in the current period compared to $62.69 in the previous period.

Pipeline Operating Expenses. Pipeline operating expenses increased by $556,259 to $1,078,863 in the current period. This increase was due primarily to costs of approximately $154,000 to repair a pipeline leak in January 2007 and approximately $159,000 to repair the compressor at Platform C in Galveston Area Block 288, approximately $55,000 for painting and repairs to the office, buildings and barge dock at the Freeport facility and increased insurance costs of approximately $55,000 due to higher renewal rates.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

Lease Operating Expenses. Lease operating expenses decreased $58,042 in the current period to $157,782 primarily due to the cessation of production at High Island Block A-7.

Depletion, Depreciation and Amortization. Depletion, depreciation and amortization expense increased by $61,919 in the current period to $289,379. Depreciation associated with estimated dismantlement costs increased by approximately $42,000 due to an increase in asset retirement obligations.

General and Administrative Expenses. General and administrative expenses increased $150,530 in the current period to $1,120,192 due to officer bonuses of $60,000, 401(k) matching of approximately $23,000 and costs associated with a staff addition. Also, approximately $65,000 of expense was recognized related to our previous lease agreements for the 801 Travis location.

Interest and Other Expense. Interest and other expense decreased $31,775 in the current period to $0 due to the elimination of our outstanding debt.

Interest and Other Income. Interest and other income increased $89,222 in the current period due to an increase in money market funds and an increase in the interest rate earned on those funds.

Recent Accounting Developments

See Note 7 in Item 1.

ITEM 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Accounting and Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, as of June 30, 2007, the Chief Executive Officer and Principal Accounting and Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, are recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Principal Accounting and Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the period covered by this report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we are involved in various claims and legal actions arising in the ordinary course of business. In our opinion, the ultimate disposition of these matters will not have a material effect on our financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our 2007 Annual Meeting of Stockholders on May 30, 2007. The matters that were voted upon at the annual meeting, and the number of votes cast for or against, as well as abstentions as to such matter, where applicable, are set forth below:

	Votes For	Votes Against	Abstentions
1) Election of Directors			
Laurence N. Benz	9,531,206	14,560	65,049
John N. Goodpasture	9,545,312	454	65,049
Harris A. Kaffie	9,484,696	61,070	65,049
Erik Ostbye	9,545,312	454	65,049
Ivar Siem	9,521,407	24,359	65,049

2) Amendment to the Company s 2000 Stock Incentive Plan to increase the number of shares of common stock that can be issued pursuant to the plan.

Votes For	Votes Against	Abstentions
3,951,498	121,910	45,157

All directors standing for election were elected to the Board of Directors and the amendment to the Company s 2000 Stock Incentive Plan passed.

ITEM 6. EXHIBITS

(a) Exhibits:

3.1[(1)]	Amended and Restated Certificate of Incorporation of the Company.
3.2[(2)]	Amended and Restated Bylaws of the Company.
31.1	Ivar Siem Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Gregory W. Starks Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

Table of Contents

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

32.1	Ivar Siem Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Gregory W. Starks Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated herein by reference to Exhibit A filed in connection with the definitive Proxy Statement of Blue Dolphin Energy Company under the Securities and Exchange Act of 1934, as filed on October 13, 2004 (Commission File No. 000-15905).

(2) Incorporated herein by reference to Exhibit 3.1 filed in connection with Form 10-QSB of Blue Dolphin Energy Company for the quarter ended June 30, 2004 under the Securities and Exchange Act of 1934, as filed on August 23, 2004 (Commission File No. 000-15905).

Table of Contents

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	BLUE DOLPHIN ENERGY COMPANY
August 10, 2007	By: /s/ IVAR SIEM Ivar Siem Chairman and Chief Executive Officer
	By: /s/ GREGORY W. STARKS Gregory W. Starks Vice President, Treasurer (Principal Accounting and Financial Officer)

Table of Contents

Exhibit Index

EXHIBITS

(a) Exhibits:

3.1[(1)]	Amended and Restated Certificate of Incorporation of the Company.
3.2[(2)]	Amended and Restated Bylaws of the Company.
31.1	Ivar Siem Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Gregory W. Starks Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Ivar Siem Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Gregory W. Starks Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated herein by reference to Exhibit A filed in connection with the definitive Proxy Statement of Blue Dolphin Energy Company under the Securities and Exchange Act of 1934, as filed on October 13, 2004 (Commission File No. 000-15905).

(2) Incorporated herein by reference to Exhibit 3.1 filed in connection with Form 10-QSB of Blue Dolphin Energy

Company for the quarter ended June 30, 2004 under the Securities and Exchange Act of 1934, as filed on August 23, 2004 (Commission File No. 000-15905).

D>

Total cash dividend

71,095	669,534	680,043

Total stock dividends

Percentage of cash dividend to available income (%)

47.5 52.8

Cash dividend yield ratio (%)

Common share

0.6 5.4 5.6

Preferred share

Stock dividend yield ratio (%)

Common share

Preferred share

Cash dividend per share (Won)

Common share

1,000 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.

13

* 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 amount of interim dividend for the nine months ended September 30, 2011 was Won 71,095 million, and the interim cash dividend amount per share was Won 1,000.

14

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 September 30, 2011, the number of domestic mobile phone subscribers reached 52.12 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 smart phone 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 smart phones 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 September 30, 2011	As of December 31, 2010	2009	2008	2007
Number of subscribers	SK Telecom	26,421	25,705	24,270	23,032	21,968
	Others (KT, LGU+)	25,697	25,062	23,675	22,575	21,529
	Total	52,118	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. Although demand has primarily been in the domestic market, as the business territory expands to overseas market, the size of overseas sales is expected to grow in the near future. In addition, sales revenue related to data services is expected to increase due to the increasing popularity of smart phones 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 September 30, 2011) (Unit: %)

Classification	As of September 30, 2011	As of December 31, 2010	2009	2008
Mobile communication services	50.7	50.6	50.6	50.5

Comparative market share:

(As of September 30, 2011) (Unit: %)

Classification	SK Telecom	KT	LG U+
Market share	50.7	31.5	17.9

(Source: Korea Communications Commission website)

D. Business Overview and Competitive Strengths

The Company s wireless business, seeking to become the Global Convergence Leader , achieved robust operating results in the third quarter of 2011 due to solid growth in new subscribers, an increase in demand for smart phones, vigorous activity in wireless Internet area and the Company s fundamental strengths. The Company maintained its leadership in wireless Internet market by commencing the LTE service for the first in Korea, while preparing for new growth in global platform business.

As of September 30, 2011, the Company had approximately 26.42 million wireless subscribers throughout Korea and a 50.7% market share of the wireless market in Korea in terms of the number of subscribers. The Company plans to establish its leadership among users of smart phones by introducing various mobile platforms and streamlining the subscription process and pricing structures to enable subscribers to easily access their mobile content from multiple devices. The Company also plans to maintain its leadership in wireless Internet market by providing innovative user interface for content access and through investment in data networks, network sharing and support of the content production.

The Company has begun the popularization of smart phones and its smart phone subscribers reached 10 million as of the end of October 2011. The Company s LTE subscribers are increasing as planned, as sales are vitalized by an expanded lineup of premium LTE handsets. The Company is also providing unrivaled network coverage as it has expanded network coverage to inside buildings and underground. The Company plans to expand its LTE coverage to 28 cities from January 2012, and expects such expansion will lead to an increase in sales throughout the nation and accelerate the growth of LTE and table PC users.

SK Planet, which was officially established on October 1, 2011, has started its work with the vision of Global Platform Innovator and with core values of Human, Unique and Global. T store has reached 10 million subscribers after two years of rapid growth, which resulted from various policies to support application developers and build ecosystem. T store will further cooperate with business partners as the subscriber base grows. T store also plans to expand to China, Taiwan and Japan.

11th Street has recently increased its market share in Korea to approximately 30% and has recorded operating profit from June 2011. In addition, 11th Street is the leader with 42% market share in the mobile commerce market, which is showing rapid growth. 11th Street will strengthen its competitiveness by launching Open Shopping Gateway in 2011 that combines open market, general shopping mall and professional shopping mall.

The Company also expects the growth of business to business (B2B) sector. The Company is generating tangible results in B2B sector by developing new business models for different industries, such as health care and education, as well as developing B2B solutions and increasing its influence in B2B lease-line business.

[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 IP TV 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: 1,000 persons)

Classification		As of September 30, 2011	As of December 31, 2010	2009
	High Speed Internet	17,754	17,224	16,348
Fixed Line Subscribers	Fixed Line	18,775	19,273	20,089
	IPTV	3,332	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, IP TV or other fixed-line services, regardless of their sex, 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 IP TV, 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.

The expected migration of analog cable television subscribers to digital TV services in 2012 when analog open air TV broadcast will terminate, as well as the expansion of markets resulting from the entrance of new global players, such as Apple and Google, into the television industry, are expected to present new opportunities. On the other hand, risk factors include an increase in competition as a competitor is expanding its subscriber base by offering services bundled with satellite TV service.

Historical market share of the Company:

(Unit: %)

Classification	As of September 30, 2011	As of December 31, 2010	2009
High Speed Internet (include Resale)	23.4	23.2	23.5
Fixed Line (include VOIP)	14.5	13.7	11.5
IPTV	24.1	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 IP TV. 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 2010, we were again ranked first in the four major independent customer satisfaction surveys, including the Korea Nation Customer Satisfaction Index, after having been ranked first in 2009. The revenue from our international calling services in 2010 was Won 323.4 billion, which represents a 7% growth from 2009.

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 1.64 million subscribers as of September 30, 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

In the past 10 years, the number of Internet subscribers in Korea increased by approximately 18 million from approximately 19.0 million in 2000 to approximately 37.0 million in 2010, representing a 7.1% compounded annual growth rate. The number of Internet subscribers saw an annual growth rate of at least 5.0% 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

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 smart phones, 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, 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, 77.8% 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 smart phones and mobile Internet is expected to increase related revenue.

(2) Competition

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 25.91 million cumulative subscribers, 19.48 million net subscribers and a page view of 3.7 billion as of September 2011. Our Nate-On service had the largest market share of 73.3% in the instant messenger market in Korea with 12.6 million net users as of September 2011. Our Nate search portal service ranked third among search engines in Korea with a market share of 4.7% as of September 2011. (Source: Korean Click, company data).

D. Business Overview and Competitive Strengths

SK Communications consolidated subsidiaries under K-IFRS include SK I-Media, Co., Ltd. and Service-in Co., Ltd. SK Communications sold all shares of SK I-Media on October 20, 2011, and SK I-Media s results were reflected in profit or loss from discontinued operations of SK Communications. In the nine months ended September 30, 2011, SK Communications recorded operating revenue of Won 196.8 billion, operating profit of Won 9.4 billion and net income of Won 6.2 billion, on a consolidated basis. In the nine months ended September 30, 2011, SK Communications recorded operating revenue of Won 196.8 billion, operating profit of Won 9.4 billion and net loss of Won 2.3 billion, on a non-consolidated basis

2011 is a year in which SK Communications will aim to take big strides in its growth as it builds on the results of 2010 and strive to become the leading Internet service provider in Korea. Key strategic goals for SK Communications in 2011 are to strengthen its social networking site, Cyworld, and to become the service provider with the largest market share in the smart device contents market. We will aim to further strengthen our competitiveness by taking such initiatives as integrating the wide range of services provided through NATE and NATE-ON to our social networking services, and 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., Commerce Planet Co., Ltd., PS&Marketing Corporation, Service Ace Co., Ltd., Service Top Co. Ltd., Network O&S Co., Ltd.	Mobile Phone, Wireless Data, Information Telecommunication	NATE, T Store and others	10,008,934,957(83%)
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, Date and Network lease service	Btv, 00700 international call and others	1,639,491,756(14%)
Other	SK Communications Co., Ltd., PAXNet Co., Ltd., Loen Entertainment, Inc., SKT Americas, Inc., SK Telecom China Holdings Co., Ltd.	Internet Portal Service, Game	NATE, Cyworld and others	366,188,342(3%)
			Others	12,014,615,055(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 September 30, 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 nine months ended September 30, 2011, broadband Internet services comprised 47.2% of SK Broadband s revenue, telephony service 24.3%, corporate data services 19.9% and other telecommunications services 8.6%.

[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	14,112	To be determined
Total					To be determined	14,112	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	2011	2012	2013	
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
Total		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)

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	To be determined	390	To be determined
Telephone						38	
Television						305	
Corporate Data				Increase leased-line and integrated information system		741	
Others				Expand networks		422	
Total					To be determined	1,896	To be determined

22

4. Revenues

(Unit: in millions of Won)

Business field	Sales type	Item		For the nine months ended September 30, 2011	For the year ended December 31, 2010
Mobile	Services	Mobile communication	Export		599
			Domestic	10,008,935	12,919,663
			Subtotal	10,008,935	12,920,262
Fixed Line	Services	Fixed line, B2B data, High speed internet, TV	Export	22,168	30,883
			Domestic	1,617,324	2,196,424
			Subtotal	1,639,492	2,227,307
Other	Services	Display and Search ad., Content	Export	3,342	12,000
			Domestic	362,846	439,726
			Subtotal	366,188	451,726
Total			Export	25,510	43,482
			Domestic	11,989,105	15,555,813
			Total	12,014,615	15,599,295

(Unit: in thousands of Won)

For the nine months ended September 30, 2011	Wireless	Fixed	Other	Sub total	Internal transaction	After consolidation
Total revenue	10,641,117,305	2,114,212,408	471,330,333	13,226,660,046	-1,212,044,991	12,014,615,055
Internal revenue	632,182,348	474,720,652	105,141,991	1,212,044,991	-1,212,044,991	
External revenue	10,008,934,957	1,639,491,756	366,188,342	12,014,615,055		12,014,615,055
Operating income (loss)	1,735,590,676	37,472,808	32,449,698	1,805,513,182		1,805,513,182
Net profit (loss)	1,391,796,379	-21,893,536	16,688,445	1,386,591,288		1,386,591,288
Total asset	19,861,710,009	3,506,937,546	1,990,601,264	25,359,248,819	-2,216,336,891	23,142,911,928
Total liabilities	7,916,651,941	2,202,253,582	691,612,217	10,810,517,740	-241,462,532	10,569,055,208

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 September 30, 2011, in connection with this unsettled currency and interest rate swap contract, an accumulated gain on valuation of derivatives amounting to Won 15,937,159,000 (excluding tax effect totaling Won 1,242,176,000 and foreign exchange translation loss arising from U.S. dollar denominated long-term borrowings totaling Won 23,150 million) was accounted for as accumulated other comprehensive gain.

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 September 30, 2011, in connection with this unsettled currency and interest rate swap contracts, an accumulated gain on valuation of derivatives amounting to Won 88,068,527,000 (excluding tax effect totaling Won 1,176,963,000 and foreign exchange translation loss arising from unguaranteed Japanese yen denominated bonds totaling Won 88,005,708,000) 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 September 30, 2011, in connection with this unsettled currency and interest rate swap contract, an accumulated gain on valuation of derivatives amounting to Won 2,946,099,000 (excluding tax effect totaling Won 655,890,000 and foreign exchange translation gain arising from unguaranteed Japanese yen denominated bonds totaling Won 35,219,000) 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 September 30, 2011, in connection with this unsettled currency and interest rate swap contract, an accumulated loss on valuation of derivatives amounting to Won 810,955,000 (excluding tax effect totaling Won 214,438,000 and foreign exchange translation gain arising from unguaranteed Japanese yen denominated bonds totaling Won 1,785,675,000) was accounted for as accumulated other comprehensive loss.

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 September 30, 2011, in connection with this unsettled foreign currency swap contract, an accumulated loss on valuation of currency swap of Won 89,263,407,000 that has accrued since May 12, 2010 (excluding tax effect totaling Won 22,727,274,000 and foreign exchange translation loss arising from unguaranteed U.S. dollar denominated bonds totaling Won 14,042,383,000) was accounted for as accumulated other comprehensive loss. Meanwhile, a loss 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.

B. Interest Rate Swap

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

(2) Contract Terms

Interest rate swap contract to which the hedge accounting is not applied

The Company has entered into an interest rate swap contract with two banks including DBS in order to hedge the interest rate risk of floating rate foreign currency bonds with face amounts totaling US$220,000,000 issued on April 29, 2009. In connection with this unsettled interest rate swap contract, gains on valuation of interest rate swap of Won 3,388,829,000 and Won 2,087,789,000 for the nine month periods ended September 30, 2011 and September 30, 2010, respectively, were charged to current operations.

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	Short-term Derivatives	Currency Swap Liability	Accumulated Other Comprehensive Gain	Loss on Valuation of Currency Swap	Agreed Exchange Rates
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	28,797,129		5,779,041	20,556,501	1,026.5-1,035.0

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	819
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					5,489

26

[SK Broadband]

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

[SK Communications]

Counterparty	Purpose	Contract Period	Contract Amount
SK Telecom 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
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 Telecom 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.

7. R&D Investments

(Unit: in million Won)

Category		For the nine months ended September 30, 2011	For the year ended December 31, 2010	Remarks
Raw material		30	41	
Labor		35,049	49,441	
Depreciation		108,765	143,131	
Commissioned service		31,636	98,545	
Others		31,482	64,755	
Total R&D costs		206,962	355,913	
Accounting	**Sales and administrative expenses**	204,705	352,186	
	Development expenses (Intangible assets)	2,257	3,727	
R&D cost / sales amount ratio (Total R&D costs / Current sales amount×100)		1.72%	2.28%	

27

8. Other information relating to investment decisions

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 owns intellectual property rights to the design of alphabet T . The rights are based on domestic trademark laws and the Company has proprietary and exclusive use of the trademark for 10 years and the rights are renewable. 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.

III. FINANCIAL INFORMATION

1. Summary Financial Information (Consolidated)

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

(Unit: in million Won)

Classification/Fiscal Year	As of September 30, 2011	As of December 31,2010
Current Assets	6,788,585	6,653,992
Cash and Cash Equivalent	1,728,505	659,405
Accounts Receivable	1,940,186	1,949,397
Notes Receivable	1,343,877	2,531,847
Others	1,776,017	1,513,343
Non-Current Assets	16,354,327	16,478,397
Long Term Investment	1,560,133	1,680,582
Affiliate Investment	1,246,510	1,204,692
Fixed Assets	8,208,949	8,153,413
Intangible Assets	1,998,051	1,884,956
Good Will	1,755,040	1,736,649
Others	1,585,644	1,818,106
Total Assets	23,142,912	23,132,389
Current Liabilities	6,665,282	6,202,170
Non-Current Liabilities	3,903,773	4,522,219
Total Liabilities	10,569,055	10,724,390
Controlling Shareholders Equity	11,490,346	11,329,991
Capital	44,639	44,639
Other Paid-In Capital	-281,097	-78,953
Retained Earnings	11,442,251	10,721,249
Other Capital	284,553	643,055
Minority Interests	1,083,511	1,078,008
Total Stockholders Equity	12,573,857	12,407,999
Number of Subsidiaries	32	32

Classification/Fiscal Year	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Revenue	12,014,615	11,575,995
Operating Profit (or Loss)	1,805,513	1,767,378
Profit (or Loss) From Continuing Operation Before Income Tax	1,920,530	1,691,737
Consolidated Total Net Profit	1,386,591	1,264,368
Net Profit (or Loss) Attributable to Majority Interests	1,396,494	1,322,265
Net Profit (or Loss) Attributable to Minority Interests	(9,903)	(57,896)
Earnings Per Share (Won)	19,698	18,310
Diluted Earnings Per Share (Won)	19,160	17,847

2. Summary Financial Information (Non-Consolidated)

Classification/Fiscal Year	As of September 30, 2011	As of December 31,2010
Current Assets	5,050,442	5,316,977
Cash and Cash Equivalent	1,396,318	357,470
Accounts Receivable	1,334,787	1,453,061
Notes Receivable	1,293,249	2,499,969
Others	1,026,088	1,006,477
Non Current Assets	14,349,672	14,410,150
Long Term Investment	1,382,761	1,517,029
Affiliate Investment	3,640,521	3,584,395
Fixed Assets	5,673,497	5,469,747
Intangible Assets	1,611,118	1,424,969
Good Will	1,308,422	1,308,422
Others	733,352	1,105,588
Total Assets	19,400,114	19,727,126
Current Liabilities	4,656,945	4,561,014
Non Current Liabilities	3,016,883	3,585,155
Total Liabilities	7,673,828	8,146,169
Capital	44,639	44,639
Other Paid-In Capital	-233,036	-24,643
Retained Earnings	11,574,002	10,824,356
Other Capital	340,680	736,606
Total Shareholders Equity	11,726,286	11,580,958

Classification/Fiscal Year	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Revenue	9,538,101	9,339,313
Operating Profit (or Loss)	1,737,812	1,804,292
Profit (or Loss) From Continuing Operation Before Income Tax	1,936,692	1,818,157
Net Profit (or Loss)	1,423,741	1,388,904
Earnings Per Share (Won)	20,083	19,232
Diluted Earnings Per Share (Won)	19,533	18,744

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,	
Nine months ended September 30, 2011	**2010**	**2009**
Deloitte Anjin LLC	Deloitte Anjin LLC	Deloitte Anjin LLC

2. Audit Opinion (Consolidated)

Term	Auditor s opinion	Issues noted
Nine months ended September 30, 2011		
Year ended December 31, 2010	Unqualified	
Year ended December 31, 2009	Unqualified	

3. Auditor (Non-Consolidated)

	Year ended December 31,	
Nine months ended September 30, 2011	**2010**	**2009**
Deloitte Anjin LLC	Deloitte Anjin LLC	Deloitte Anjin LLC

4. Audit Opinion (Non-Consolidated)

Term	Auditor s opinion	Issues noted
Nine months ended September 30, 2011		
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)

Term	Auditors	Contents	Fee	Total hours
Year ended December 31, 2011	Deloitte Anjin LLC	Semi-annual review Quarterly review Non-consolidated financial statements audit Consolidated financial statements audit English financial statements review and other audit task	1,364,000	14,033
Year ended December 31, 2010	Deloitte Anjin LLC	Semi-annual review Quarterly review Non-consolidated financial statements audit Consolidated financial statements audit IFRS-based financial statements review English financial statements review and other audit task	1,563,770	16,810
Year ended December 31, 2009	Deloitte Anjin LLC	Semi-annual review Quarterly review Non-consolidated financial statements audit Consolidated financial statements audit English financial statements review and other audit task	1,308,356	13,982

B. Non-Audit Services Contract with External Auditors

(Unit: in thousands of Won)

Term	Contract date	Service provided	Service duration	Fee
Year ended December 31, 2011	April 28, 2011	Tax consulting	30 days	45,000
	April 28, 2011	Tax consulting	30 days	45,000
Year ended December 31, 2010	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
Year ended December 31, 2009	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

32

V. 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	Jae Won Choi, Sung Min Ha, Jun Ho Kim	Dal Sup Shim, Rak Yong Uhm, Hyun Chin Lim, Jay Young Chung, Jae Ho Cho

Two new inside directors, Sung Min Ha and Jin Woo So, three independent directors, Rak Yong Uhm, Jay Young Chung and Jae Ho Cho, and two members of the audit committee, Jay Young Chung and Jae Ho Cho, were elected at the 27th Annual General Meeting of Shareholders held on March 11, 2011. 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.

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

Meeting	Date	Agenda	Approval
322th (the first meeting of 2011)	January 21, 2011	- Financial Statements as of and for the year ended December 31, 2010. - Annual Business Report as of and for the year ended December 31, 2010 - Report for Internal Accounting Management System - Report for Subsequent Events following 4Q 2010	Approved as proposed Approved as amended
323th (the second meeting of 2011)	February 10, 2011	- Convocation of the 27th Annual General Meeting of Shareholders - Cooperation and share swap with KB Financial Group - Result of Internal Accounting Management System Evaluation	Approved as proposed Approved as proposed
324th (the third meeting of 2011)	March 11, 2011	- Election of the Company s CEO - Amendment of committee regulation - Election of committee member - Fund Management Transaction with Affiliated Financial Company (SK Securities)	Approved as proposed Approved as proposed Approved as proposed Approved as proposed

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

34

Meeting	Date	Agenda	Approval
332nd (the 11th meeting of 2011)	September 22, 2011	- Appointment of members of the Independent Director Nomination Committee	Approved as proposed
		- Asset Management Transaction with Affiliated Company (SK Securities)	Approved as proposed
		- Transaction of goods, services and assets with SK Planet	Approved as proposed
		- Participation in capital increase of SK Industrial Development China	Approved as proposed
		- Participation in capital increase of SK Technology Innovation Center	Approved as proposed
333rd (the 12th meeting of 2011)	October 4, 2011	- Notice of a meeting of board of directors in lieu of the shareholders meeting to report the result of the spin-off	Approved as proposed
334th (the 13th meeting of 2011)	October 25, 2011	- Payment of the purchase price of the LTE frequencies	Approved as proposed
		- Proposal for the issuance of bonds	Approved as proposed
		- Report for Subsequent Events following 2Q 2011	
335th (the 14th meeting of 2011)	November 10, 2011	- Participation in the bidding for the shares of Hynix Semiconductor**	Approved as proposed
		- Proposal for a bank loan	Approved as proposed
336th (the 15th meeting of 2011)	November 14, 2011	- Purchase of existing shares of Hynix Semiconductor and participation in the capital increase of Hynix Semiconductor	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

a) Compensation Review Committee

(As of November 14, 2011)

Number of Persons	Members: Inside Directors	Members: Independent Directors	Task
5		Dal Sup Shim, Rak Yong Uhm, Hyun Chin Lim, Jay Young Chung, Jae Ho Cho	Review CEO remuneration system and amount.

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

b) Capex Review Committee

(As of November 14, 2011)

Number of Persons	Members: Inside Directors	Members: Independent Directors	Task
4	Jun Ho Kim	Dal Sup Shim, Rak Yong Uhm, Jay Young Chung	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

(As of November 14, 2011)

Number of Persons	Members: Inside Directors	Members: Independent Directors	Task
4	Jun Ho Kim	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

(As of November 14, 2011)

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

*

The Independent Director Nomination Committee is a committee established under the provisions of the Articles of Incorporation and Korean Commercial Code.

e) Audit Committee

(As of November 14, 2011)

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.

36

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	2nd half 2010 Management Audit Results and Management Audit Plan for 2011		
		Evaluation of Internal Accounting Controls based on the Opinion of the Members of the Audit Committee	Approved as proposed	
		Rental contract for satellite line facilities	Approved as proposed	
		Reports on Internal Accounting Management System		
		Comparison of before and after operating customer contact channel and BTS maintenance subsidiary company		
The second meeting of 2011	February 9, 2011	Reports on 2010 Korean GAAP Audit		
		Report on Review of 2010 Internal Accounting Management System		
		Evaluation of Internal Accounting Management System Operation	Approved as proposed	
		Auditor’s Report for Fiscal Year 2010	Approved as proposed	
		Purchase of Mobile Phone Relay Devices for 2011	Approved as proposed	
		Construction of Network Facilities for 2011	Re-proposed	
		Construction of Mobile Phone Facilities for 2011	Approved as proposed	
The third meeting of 2011	February 10, 2011	Construction of Mobile Phone Facilities for 2011	Approved as proposed	
The fourth meeting of 2011	March 11, 2011	2011 2Q Transactions with SK C&C Co., Ltd.	Approved as proposed	
		Asset Management Transaction with Affiliated Company (SK Securities)		
The fifth meeting of 2011	April 28, 2011	Election of chairman	Approved as proposed	
		Mobile phone facilities construction for Fiscal Year 2011	Approved as proposed	
		Network facilities construction for Fiscal Year 2011	Approved as proposed	
		Audit plan for the Fiscal Year 2011		
		Remuneration of outside auditor for the Fiscal Year 2011	Approved as proposed	
		Outside auditor service plan for the Fiscal Year 2011	Approved as proposed	
The sixth meeting of 2011	June 23, 2011	2011 3Q Transactions with SK C&C Co., Ltd.	Approved as proposed	
		Asset Management Transaction with Affiliated Company (SK Securities)		
		Reports on 2011 US GAAP Audit		
The seventh meeting of 2011	July 27, 2011	Construction of Mobile Phone Facilities for 2011	Approved as proposed	
		Construction of Network Facilities for 2011	Approved as proposed	
		Financial Results for the First Half 2011	Approved as proposed	
		Reports on IFRS Review of the First Half of 2011		
		Report on Audit Report to the Extraordinary General Meeting of Shareholders		
The eighth meeting of 2011	August 24, 2011	Report on Accounting Review of Spin-off Balance Sheet		
		Audit Report to the First Extraordinary General Meeting of Shareholders	Approved as proposed	
		Management Audit Results for the First Half of 2011		

Meeting	Date	Agenda	Approval	Remarks
The ninth meeting of 2011	September 21, 2011	2011 4Q Transactions with SK C&C Co., Ltd.	Approved as proposed	
		Asset Management Transaction with Affiliated Company (SK Securities)		
The tenth meeting of 2011	October 24, 2011	Advertisement Agency Agreement for Outdoor Advertisement	Approved as proposed	
		Consolidated Loyalty Marketing Agency Agreement for 2012	Approved as proposed	
		Delegation of Fixed-line Services	Approved as proposed	
		Rental Contract for Telecommunication Facilities	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 12th 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.

38

4. Affiliated Companies

A. Capital Investments between Affiliated Companies

(As of September 30, 2011)

	Invested companies									
Investing company	**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%	23.2%	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 D&D										
SK Communications										
SK Broadband										
SK Lubricant										
SK Securities										
SK Petrochemical										
TSK Water										
UBcare										
Total affiliated companies	31.8%	33.4%	23.2%	39.1%	42.5%	65.4%	83.1%	100.0%	100.0%	22.7%

	Invested companies								
Investing company	**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%	100.0%			
SK Telecom									
SK Networks									
SK Chemicals									
SKC									
SK C&C									
SK E&C									
SK E&S									
SK Gas									
SK Shipping									
SK Energy							87.5%	92.4%	50.0%
SK Global Chemical									
SK Marketing & Company									
SK D&D									
SK Communications									
SK Broadband									
SK Lubricant									
SK Securities									

SK Petrochemical									
TSK Water									
UBcare									
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	Commerce Planet	PS & Marketing
SK Corporation										
SK Innovation						50.0%				
SK Telecom						50.0%		83.5%	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	100.0%	78.9%	50.0%							
SK Marketing & Company							100.0%			
SK D&D										
SK Communications										
SK Broadband										
SK Lubricant				100.0%	100.0%					
SK Securities										
SK Petrochemical										
TSK Water										
UBcare										
Total affiliated companies	100.0%	78.9%	50.0%	100.0%	100.0%	100.0%	100.0%	83.5%	100.0%	100.0%

Investing company	Invested companies									
	NTREEV Soft	F&U Credit Info	Loen Entertainment	Network O&S	Service Ace	Service Top	SK Wyverns	Television Media Korea	Paxnet	SK Broadband
SK Corporation										
SK Innovation										
SK Telecom	63.7%	50.0%	63.5%	100.0%	100.0%	100.0%	100.0%	51.0%	59.7%	50.6%
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 D&D										
SK Communications										
SK Broadband										
SK Lubricant										
SK Securities										
SK Petrochemical										
TSK Water										
UBcare										

Total affiliated companies	63.7%	50.0%	63.5%	100.0%	100.0%	100.0%	100.0%	51.0%	59.7%	50.6%

	Invested companies									
Investing company	**SK Communications**	**Broadband Media**	**Broadband D&M**	**Broadband CS**	**SK I-Media**	**Service In**	**SKN Internet**	**SKN Service**	**MRO Korea**	**WS Commerce**
SK Corporation										
SK Innovation										
SK Telecom	64.7%									
SK Networks							100.0%	85.0%	51.0%	100.0%
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 D&D										
SK Communications					100.0%	100.0%				
SK Broadband		100.0%	100.0%	100.0%						
SK Lubricant										
SK Securities										
SK Petrochemical										
TSK Water										
UBcare										
Total affiliated companies	64.7%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	85.0%	51.0%	100.0%

	Invested companies									
Investing company	**SK Pinx**	**LC&C**	**Speed Motor**	**SKC Air Gas**	**SKC Solmics Co., Ltd.**	**SK Telesys**	**SKW**	**Sumray Corporation**	**Incyto**	**SKC lighting**	**Daehan City Gas**
SK Corporation											
SK Innovation											
SK Telecom											
SK Networks	100.0%	66.7%	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											51.3%
SK Gas											
SK Shipping											
SK Energy											
SK Global Chemical											
SK Marketing & Company											
SK D&D											
SK Communications											
SK Broadband											
SK Lubricant											
SK Securities											
SK Petrochemical											
TSK Water											
UBcare											
Total affiliated companies	100.0%	66.7%	100.0%	80.0%	48.7%	47.5%	65.0%	100.0%	100.0%	65.0%	51.3%

41

	Invested companies									
Investing company	Busan City Gas	Jeonnam City Gas	Gangwon City Gas	JBES	CCES	YN Energy	Chungnam City Gas	PyongTaek Energy Service	Gimcheon Energy	PMP
SK Corporation										
SK Innovation										
SK Telecom										
SK Networks										
SK Chemicals										
SKC										
SK C&C										
SK E&C										50.0%
SK E&S	40.0%	100.0%	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 D&D										
SK Communications										
SK Broadband										
SK Lubricant										
SK Securities										
SK Petrochemical										
TSK Water										
UBcare										
Total affiliated companies	40.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	50.0%	100.0%

	Invested companies									
Investing company	SK Forest	Daejeon Pure Water	Gwangju Pure Water	SK D&D	Real Vest	SK Gas	SK Sci-tech	UB Care	SK Seentec	Korea Sleep Network
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	100.0%	32.0%	42.0%	45.0%	100.0%					
SK E&S										
SK Gas										
SK Marketing & Company										
SK Shipping										
SK Energy										
SK Global Chemical										
SK D&D										
SK Communications										
SK Broadband										
SK Lubricant										
SK Securities										
SK Petrochemical										
TSK Water										
UBcare										

Total affiliated companies	100.0%	32.0%	42.0%	45.0%	100.0%	45.5%	50.0%	44.0%	100.0%	100.0%

Investing company	Namwon Sarang Electric Power	MKS Guarantee	Green Biro	Pana Blu Co., Ltd.	Independence	Infosec	Ever Health Care	SKSM
	Invested companies							
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			100.0%	80.4%				
SK Marketing & Company								
SK Shipping								100.0%
SK Energy								
SK Global Chemical								
SK D&D	100.0%	100.0%						
SK Communications								
SK Broadband								
SK Lubricant								
SK Securities								
SK Petrochemical								
TSK Water								
UBcare							100.0%	
Total affiliated companies	100.0%	100.0%	100.0%	80.4%	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 September 30, 2011) (Unit: Shares, %)

Name	Relationship	Type of share	Beginning of Period: Number of shares	Beginning of Period: Ownership ratio	End of Period: Number of shares	End of Period: Ownership ratio
			Number of shares owned and ownership ratio			
SK Corporation	Largest Shareholder	Common share	18,748,452	23.22	18,748,452	23.22
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
Shin Bae Kim	Officer of affiliated company	Common share	1,270	0.00	0	0.00
Man Won Jung	Officer of affiliated company	Common share	5,600	0.01	0	0.01
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	18,757,360	23.23	18,751,490	23.22

43

B. Overview of the Largest Shareholder

SK Corporation is a holding company and as of September 30, 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:

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.	23.2%	2,847,985	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%	405,130	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%	228,743	Biotechnology	Privately Held

* The above share holdings are based on common stock holdings as of September 30, 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.

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.

(Unit: Shares, %)

Largest Shareholder	Date of the change in the largest shareholder/ Date of change in shareholding	Shares Held	Holding Ratio	Remarks
	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 25th 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.
SK Corporation	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
			Man Won Jung, SK Telecom s CEO, resigned
March 11, 2011	18,750,490	23.22	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, SK C&C s Chairman, purchased 500 shares
August 5, 2011	18,750,490	23.22	Shin Won Chey, SK C&C s Chairman, purchased 500 shares
August 23, 2011	18,750,990	23.22	Shin Won Chey, SK C&C s Chairman, purchased 500 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 June 30, 2011) (Unit: shares, %)

Rank	Name (title)	Common share Number of shares	Common share Ownership ratio	Preferred share Number of shares	Preferred share Ownership ratio	Sub-total Number of shares	Sub-total Ownership ratio
1	Citibank ADR	24,321,893	30.12			24,321,893	30.12
2	SK Corporation	18,748,452	23.22			18,748,452	23.22
3	SK Telecom	9,650,712	11.95			9,650,712	11.95
Shareholdings under the Employee Stock Ownership Program *		310,031	0.40			310,031	0.40

* As of September 30, 2011

B. Shareholder Distribution

(As of June 30, 2011)

Classification	Number of shareholders	Ratio (%)	Number of shares	Ratio (%)	Remarks
Total minority shareholders	27,620	99.97%	23,615,862	29.24%	
Total	27,626	100%	80,745,711	100%	

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

A. Domestic Securities Market

(Unit: Won, shares)

Types		September 2011	August 2011	July 2011	June 2011	May 2011	April 2011
Common stock	**Highest**	159,500	155,000	161,500	161,000	169,000	167,500
	Lowest	145,500	131,000	140,500	126,500	158,000	156,500
Monthly transaction volume		5,296,111	7,629,297	7,487,737	3,296,999	3,967,936	2,644,056

B. Foreign Securities Market

New York Stock Exchange (Unit: US$, ADR)

Types		September 2011	August 2011	July 2011	June 2011	May 2011	April 2011
Depository Receipt	**Highest**	16.01	16.36	18.83	18.76	20.29	19.10
	Lowest	13.35	13.67	15.21	17.45	16.76	17.20
Monthly transaction volume		31,273,856	45,328,712	58,978,296	36,333,232	46,330,984	20,685,006

VIII. EMPLOYEES

(As of September 30, 2011) (Unit: persons, in millions of Won)

Classification	Number of employees: Regular employees	Contract employees	Others	Total	Average service year	Aggregate wage for the nine months ended September 30, 2011	Average wage per person	Remarks
Male	3,838	49		3,887	12.2	207,408	51	
Female	628	78		706	9.6	28,411	35	
Total	4,466	127		4,593	11.8	235,819	48	

46

IX. TRANSACTIONS WITH PARTIES WITH INTERESTS

1. Loans to the Largest Shareholder and Related Persons

(As of September 30, 2011) (Unit: in millions of Won)

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

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)	Relationship	Details: Transferred Objects	Details: Purpose of Transfer	Details: Date of Transfer	Details: Amount Transferred From Largest Shareholder	Details: Amount Transferred to Largest Shareholder	Remarks
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)	Relationship	Account category	Beginning	Change details Increase	Change details Decrease	Ending	Accrued interest	Remarks
Midus and others	Agency	Long-term and short-term loans	77,985	223,539	183,019	118,505		

47

(Unit: in millions of Won)

Name (Corporate name)	Relationship	Account category	Beginning	Change details Increase	Decrease	Ending	Accrued interest	Remarks
Daehan Kanggun BcN Co., Ltd.	Investee	Long-term loans	30,224	614	17,592	13,246		

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).

48

B. Summary Minutes of the General Meeting of Shareholders

Date	Agenda	Resolution
23rd Fiscal Year Meeting of Shareholders	1. Approval of the financial statements for the year ended December 31, 2006	Approved (Cash dividend, Won 7,000 per share)
	2. Remuneration limit for Directors	Approved (Won 12 billion)
	3. Election of Directors	
(March 9, 2007)	- Election of inside directors	Approved (Jung Nam Cho, Sung Min Ha)
	- Election of independent directors as Audit Committee members	Approved (Dal Sup Shim)
24th Fiscal Year Meeting of Shareholders (March 14, 2008)	1. Approval of the Financial Statements for the year ended December 31, 2007	Approved (Cash dividend, Won 8,400 per share)
	2. Amendment to Articles of Incorporation	Approved
	3. Approval of Remuneration Limit for Directors	Approved (Won 12 billion)
	4. Election of Directors	
	- Election of inside directors	Approved (Shin Bae Kim, Young Ho Park)
	- Election of independent directors	Approved (Rak Yong Uhm, Jay Young Chung)
	- Election of independent directors as Audit Committee member	Approved (Jae Ho Cho)
25th Fiscal Year Meeting of Shareholders	1. Approval of the financial statements for the year ended December 31, 2008	Approved (Cash dividend, Won 8,400 per share)
	2. Approval of Remuneration Limit for Directors	Approved (Won 12 billion)
	Amendment to Company Regulation on Executive	Approved
(March 13, 2009)	3. Compensation	
	4. Election of Directors	
	- Election of inside directors	Approved (Jae Won Chey, Man Won Jung)
	- Election of independent directors	Approved (Hyun Chin Lim)
	- Election of independent directors as Audit Committee member	Approved (Hyun Chin Lim)
26th Fiscal Year Meeting of Shareholders (March 12, 2010)	1. Approval of the financial statements for the year ended December 31, 2009	Approved (Cash dividend, Won 8,400 per share)
	2. Amendment to Articles of Incorporation	Approved
	3. Approval of Remuneration Limit for Directors	Approved (Won 12 billion)
	4. Election of Directors	
	- Election of inside directors	Approved (Ki Haeng Cho)
	- Election of independent directors	Approved (Dal Sup Shim)
	- Election of independent directors as Audit Committee member	Approved (Dal Sup Shim, Jay Young Chung)
27th Fiscal Year Meeting of Shareholders	1. Approval of the financial statements for the year ended December 31, 2010	Approved (Cash dividend, Won 8,400 per share)
	2. Approval of Remuneration Limit for Directors	Approved
	3. Amendment to Company Regulation on Executive	Approved (Won 12 billion)
(March 11, 2011)	Compensation	
	4. Election of Directors	
	- Election of inside directors	Approved (Sung Min Ha, Jin Woo So)
	- Election of independent directors	Approved (Rak Young Uhm, Jay Young Chung, Jae Ho Cho)

		- Election of independent directors as Audit Committee member	Approved (Jay Young Chung, Jae Ho Cho)
1st Extraordinary Meeting of Shareholders (August 31, 2011)	1.	Approval of the Spin-off Plan	Approved (Spin-off of SK Planet)
	2.	Election of Directors	Approved (Jun Ho Kim)

49

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 on February 18, 2011 against the Company ordering the Company to pay Won 570 million to KOMCA. The Company appealed the judgment to the appellate court on February 28, 2011. The Company plans to vigorously defend itself in the appellate court by emphasizing the character of service fees for Coloring services and the abuse of copyright by monopolistic or oligopolistic businesses. 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	On appeal
Claim relating to Gangamgu District Office Cable-Burying Project	March 2010	345,271	On appeal
Administrative Proceeding relating to Gangnamgu District Office	April 2010	703,440	Pending before Administrative Court
Damages Claim relating to Hyundai Construction	December 2010	561,283	Pending before District Court
Claim for Sales Price by Sambo Motors	April 2011	321,200	Pending before District Court
Damages Claim against Asan Construction Company	April 2011	454,268	Pending before District Court
Other claims and proceedings		575,148	
Total		4,770,610	

50

(2) SK Broadband as the Defendant

(Unit: thousand won)

Description of Proceedings	Date of Commencement of Proceedings	Amount of Claim	Status
Claim for Return of Unfair Benefit from One Call	October 2010	670,787	Pending before District 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	100,000	On appeal
Claim for Commission by Vialty and Four Other Companies	November 2010	125,000	Pending before District Court
Other claims and proceedings		47,815	
Total		1,143,602	

(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	75,000	On appeal
Total		75,000	

[SK Communications]

A. Material Legal Proceedings

As of September 30, 2011, 24 cases were pending and the aggregate amount of claim was Won 1,527 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 11th 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 11th Street and appropriate education for relevant employees.

On February 28, 2011, the Company received a correctional order from the Fair Trade Commission of Korea for violation of Article 19 of the Korean Monopoly Regulation and Fair Trade Act, or the Fair Trade Act, and was imposed a fine of Won 1,964 million with respect to providing Non-DRM on-line music content services. The Company filed a suit disputing the order of the Fair Trade Commission and the suit is currently pending.

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.

[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 September 30, 2011

[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) SK Telecom Co., Ltd.	After spin-off (As of October 1, 2011) 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

(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 decided to purchase 146,100,000 shares of Hynix Semiconductor Inc. (estimated aggregate purchase price of Won 3,426,675 million) on February 14, 2012 in order to acquire the control of Hynix Semiconductor. All shares (including existing shares and newly-issues shares) will be purchased with cash, and the Company will have a 21.05% equity interest in Hynix Semiconductor after the purchase.

[SK Communications]

On October 5, 2011, SK Planet Co., Ltd., which has spun off from SK Telecom, acquired 28,029,945 shares (64.6%) of SK Communications common stock from SK Telecom in connection with the spin-off. As of September 30, 2011, SK Planet Co., Ltd. is the largest shareholder of SK Communications.

On October 17, 2011, SK i-media Co., Ltd. changed its name to NBJ Games Co., Ltd. In accordance with the resolution of the board of directors of SK Communications, SK Communications sold all of the shares of SK i-media Co., Ltd. to LK Mediatech Co., Ltd on October 20, 2011. Accordingly, NBJ Games Co., Ltd. was excluded from the affiliates of SK.

SK TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND NINE MONTHS

ENDED SEPTEMBER 30, 2011

AND INDEPENDENT ACCOUNTANTS REVIEW REPORT

Deloitte Anjin LLC
8Fl., One IFC,
23, Yoido-dong,
Youngdeungpo-gu, Seoul
150-876, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

Independent Accountants Review Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of

SK Telecom Co., Ltd.

Report on the consolidated financial statements

We have reviewed the accompanying consolidated financial statements of SK Telecom Co., Ltd. and subsidiaries (the Company). The financial statements consist of the consolidated statements of financial position as of September 30, 2011 and December 31, 2010, and the related consolidated statements of income, comprehensive income for the three months and nine months ended September 30, 2011 and changes in shareholders equity and cash flows for the nine months ended September 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management s responsibility for the consolidated financial statements

The Company s management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent accountants responsibility

Our responsibility is to express a conclusion on the accompanying consolidated financial statements based on our reviews.

We conducted our reviews in accordance with standards for review of interim financial statements in the Republic of Korea. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements of the Company are not presented fairly, in all material respects, in accordance with Korean International Financial Reporting Standards (K-IFRS) 1034 Interim Financial Reporting , and the requirements of K-IFRS 1101, First-time Adoption of Korean International Financial Reporting Standards , relevant to interim financial reporting.

Other matter

The consolidated statements of income and comprehensive income for the three months and nine months ended September 30, 2010 and changes in shareholders equity and cash flows for the nine months ended September 30, 2010, comparatively presented herein, were not reviewed.

Our reviews also comprehended the translation of the Korean won amounts into U.S. dollar amounts and nothing has come to our attention that causes us to believe that such translation has not been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers of financial statements.

Accounting principles and review standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in shareholders equity 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 review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and review standards and their application in practice.

November 24, 2011

Notice to Readers

This report is effective as of November 24, 2011, the independent accountants review report date. Certain subsequent events or circumstances may have occurred between the independent accountants review report date and the time the independent accountants review report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modification to the independent accountants review report.

57

SK TELECOM CO., LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2011 AND DECEMBER 31, 2010

		Korean won		Translation into U.S. dollars (Note 2)	
ASSETS	*Notes*	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
		(In millions)		(In thousands)	
CURRENT ASSETS:					
Cash and cash equivalents	*4,29*	(Won) 1,728,505	(Won) 659,405	$ 1,463,718	$ 558,392
Short-term financial instruments	*4,25*	960,238	567,152	813,141	480,271
Short-term investment securities	*4,7*	90,669	400,531	76,780	339,174
Accounts receivable - trade	*4,5,24*	1,940,186	1,949,397	1,642,972	1,650,772
Short-term loans	*4,5,24*	99,643	94,924	84,379	80,383
Accounts receivable - other	*4,5,24*	1,343,877	2,531,847	1,138,011	2,143,998
Prepaid expenses		118,871	182,091	100,661	154,197
Derivative assets	*4,26*	82,358		69,742	
Inventories	*6,25*	176,430	149,223	149,403	126,364
Advanced payments and other	*4,5,7*	243,893	119,422	206,532	101,128
Assets held for sale	*29*	3,915		3,315	
Total Current Assets		6,788,585	6,653,992	5,748,654	5,634,679
NON-CURRENT ASSETS:					
Long-term financial instruments	*4*	7,764	117	6,575	99
Long-term investment securities	*4,7*	1,560,133	1,680,582	1,321,139	1,423,137
Investments in associates	*8*	1,246,510	1,204,692	1,055,559	1,020,147
Property and equipment	*9,24,25*	8,208,949	8,153,413	6,951,434	6,904,406
Investment property	*10*	272,070	197,307	230,392	167,082
Goodwill	*11*	1,755,040	1,736,649	1,486,189	1,470,615
Intangible assets	*12*	1,998,051	1,884,956	1,691,973	1,596,203
Long-term loans	*4,5,24*	91,862	84,323	77,790	71,406
Long-term accounts receivable - other	*4,5*	8,322	527,106	7,047	446,360
Long-term prepaid expenses	*25*	575,459	411,509	487,305	348,471
Guarantee deposits	*4,5,24*	237,310	250,333	200,957	211,985
Long-term derivative assets	*4,26*	145,821	203,382	123,483	172,226
Deferred income tax assets		219,378	106,860	185,772	90,490
Other	*4,5*	27,658	37,168	23,421	31,473
Total Non-current Assets		16,354,327	16,478,397	13,849,036	13,954,100
TOTAL ASSETS		(Won) 23,142,912	(Won) 23,132,389	$ 19,597,690	$ 19,588,779

(Continued)

SK TELECOM CO., LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

SEPTEMBER 30, 2011 AND DECEMBER 31, 2010

LIABILITIES AND STOCKHOLDERS EQUITY	Notes	Korean won September 30, 2011 (In millions)	Korean won December 31, 2010 (In millions)	Translation into U.S. dollars (Note 2) September 30, 2011 (In thousands)	Translation into U.S. dollars (Note 2) December 31, 2010 (In thousands)
CURRENT LIABILITIES:					
Short-term borrowings	*4,13,25*	(Won) 1,175,751	(Won) 523,710	$ 995,640	$ 443,484
Accounts payable - trade	*4,24*	201,567	195,777	170,689	165,786
Accounts payable - other	*4,24*	1,094,878	1,434,329	927,156	1,214,607
Withholdings	*4*	587,446	408,261	497,456	345,720
Accrued expenses	*4*	657,384	677,480	556,680	573,698
Income tax payable		216,557	259,871	183,383	220,062
Unearned revenue		293,971	311,365	248,938	263,668
Derivative liabilities	*4,26*	2,465	15,393	2,087	13,035
Provisions	*14*	646,757	652,889	547,681	552,874
Current portion of long-term debt, net	*4,13*	1,641,525	1,601,229	1,390,063	1,355,939
Advanced receipts and other		144,888	121,866	122,694	103,197
Liabilities directly associated with assets held for sale	*29*	2,093		1,772	
Total Current Liabilities		6,665,282	6,202,170	5,644,239	5,252,070
NON-CURRENT LIABILITIES:					
Bonds payable, net	*4,13*	2,738,291	3,658,546	2,318,817	3,098,100
Long-term borrowings	*4,13,25*	337,584	235,968	285,870	199,820
Long-term payables - other	*4*	235,721	54,783	199,611	46,391
Long-term unearned revenue		225,585	241,892	191,028	204,837
Finance lease liabilities	*4*	43,541	60,075	36,871	50,872
Retirement benefit obligation	*15*	103,749	67,870	87,856	57,473
Long-term derivative liabilities	*4,26*		14,761		12,500
Long-term provisions	*14*	148,093	112,227	125,407	95,035
Long-term advanced receipts and other	*4,24*	71,209	76,098	60,301	64,441
Total Non-current Liabilities		3,903,773	4,522,220	3,305,761	3,829,469
Total Liabilities		10,569,055	10,724,390	8,950,000	9,081,539
STOCKHOLDERS EQUITY:					
Share capital	*1,16*	44,639	44,639	37,801	37,801
Share premium	*16,17*	(281,097)	(78,953)	(238,036)	(66,858)
Retained earnings	*18*	11,442,251	10,721,249	9,689,433	9,078,880
Reserves	*19*	284,553	643,056	240,963	544,547
Non-controlling interests		1,083,511	1,078,008	917,529	912,870
Total Stockholders Equity		12,573,857	12,407,999	10,647,690	10,507,240

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	(Won) 23,142,912	(Won) 23,132,389	$ 19,597,690	$ 19,588,779

See accompanying notes to consolidated financial statements.

59

SK TELECOM CO., LTD.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

		Korean won				Translation into U.S. dollars (Note 2)			
		2011		2010		2011		2010	
	Notes	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
		(In millions except for per share data)				(In thousands except for per share data)			
OPERATING REVENUE:									
Revenue	*23,24*	(Won) 4,018,905	(Won) 11,948,764	(Won) 3,978,940	(Won) 11,549,872	$ 3,403,256	$ 10,118,354	$ 3,369,413	$ 9,780,567
Other	*20*	46,233	65,851	9,025	26,124	39,151	55,763	7,643	22,122
Sub-total		4,065,138	12,014,615	3,987,965	11,575,996	3,442,407	10,174,117	3,377,056	9,802,689
OPERATING EXPENSES:									
Labor cost	*15*	294,097	859,589	288,438	781,977	249,045	727,910	244,253	662,187
Commissions paid		1,411,636	4,196,800	1,379,320	4,237,474	1,195,390	3,553,900	1,168,024	3,588,343
Depreciation and amortization	*9,10,12*	617,812	1,784,198	525,457	1,607,831	523,170	1,510,880	444,963	1,361,530
Network interconnection		322,345	964,589	375,713	1,051,007	272,966	816,825	318,158	890,005
Leased line		127,744	352,060	103,820	310,728	108,175	298,129	87,916	263,128
Advertising		117,071	257,623	84,620	240,588	99,137	218,158	71,658	203,733
Rent		98,265	290,919	92,196	267,379	83,212	246,354	78,073	226,420
Cost of goods sold		244,720	648,244	168,658	438,314	207,232	548,941	142,822	371,169
Other	*20*	302,242	855,080	326,520	873,320	255,942	724,091	276,500	739,538
Sub-total	*24*	3,535,932	10,209,102	3,344,742	9,808,618	2,994,269	8,645,188	2,832,367	8,306,053
OPERATING INCOME	*23*	529,206	1,805,513	643,223	1,767,378	448,138	1,528,929	544,689	1,496,636
Financial income	*21*	73,783	388,509	103,352	270,294	62,480	328,994	87,520	228,888
Financial costs	*21*	100,357	251,400	110,771	346,507	84,984	212,889	93,802	293,425
Equity in earnings of affiliates	*8*	17,452	29,137	9,691	24,392	14,779	24,674	8,206	20,655
Equity in losses of affiliates	*8*	18,835	51,229	14,100	23,820	15,950	43,381	11,940	20,171

(Continued)

SK TELECOM CO., LTD.

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

		Korean won				Translation into U.S. dollars (Note 2)			
		2011		2010		2011		2010	
	Notes	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
		(In millions except for per share data)				(In thousands except for per share data)			
NCOME FROM CONTINUING OPERATION BEFORE NCOME TAX		(Won) 501,249	(Won) 1,920,530	(Won) 631,395	(Won) 1,691,737	$ 424,463	$ 1,626,327	$ 534,673	$ 1,432,583
NCOME TAX FOR CONTINUING OPERATION		120,248	535,071	158,223	425,644	101,827	453,104	133,985	360,440
NCOME (LOSS) FROM DISCONTINUED OPERATION	*28*	2,886	1,132	(983)	(1,725)	2,444	959	(832)	(1,461)
NET INCOME	*23*	(Won) 383,887	(Won) 1,386,591	(Won) 472,189	(Won) 1,264,368	$ 325,080	$ 1,174,182	$ 399,856	$ 1,070,682
ATTRIBUTABLE TO:									
Controlling nterests		(Won) 386,166	(Won) 1,396,494	(Won) 489,023	(Won) 1,322,265	(Won) 327,010	(Won) 1,182,568	(Won) 414,110	(Won) 1,119,710
Non-controlling nterests		((Won) 2,279)	((Won) 9,903)	((Won) 16,834)	((Won) 57,897)	((Won) 1,930)	((Won) 8,386)	((Won) 14,254)	((Won) 49,028)
NET INCOME PER SHARE FROM CONTINUING OPERATION									
In Korean won nd U.S. dollars)	*22*	(Won) 5,451	(Won) 19,688	(Won) 6,804	(Won) 18,325	$ 4.62	$ 16.67	$ 5.76	$ 15.52
NET INCOME PER SHARE									
In Korean won nd U.S. dollars)	*22*	(Won) 5,478	(Won) 19,698	(Won) 6,795	(Won) 18,310	$ 4.64	$ 16.68	$ 5.75	$ 15.51
DILUTED NET NCOME PER HARE FROM CONTINUING OPERATION									
In Korean won nd U.S. dollars)	*22*	(Won) 5,307	(Won) 19,150	(Won) 6,632	(Won) 17,862	$ 4.49	$ 16.22	$ 5.62	$ 15.13

DILUTED NET INCOME PER SHARE (In Korean won and U.S. dollars)	*22*	(Won)	5,333	(Won)	19,160	(Won)	6,623	(Won)	17,847	$	4.52	$	16.23	$	5.61	$	15.11

See accompanying notes to consolidated financial statements.

61

SK TELECOM CO., LTD.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

		Korean won				Translation into U.S. dollars (Note 2)			
		2011		2010		2011		2010	
	Notes	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
		(In millions except for per share data)				(In thousands except for per share data)			
ET INCOME		(Won) 383,887	(Won) 1,386,591	(Won) 472,189	(Won) 1,264,368	$ 325,080	$ 1,174,182	$ 399,856	$ 1,070,682
THER OMPREHENSIVE NCOME:									
et change in fair alue of vailable-for-sale nancial assets	*19*	(198,482)	(376,631)	104,190	(40,667)	(168,077)	(318,936)	88,229	(34,437
hare of other omprehensive ncome of associates	*8*	13,867	5,023	(628)	2,173	11,743	4,254	(532)	1,840
oss on valuation of erivatives		(22,031)	(18,744)	(10,524)	(14,710)	(18,656)	(15,873)	(8,912)	(12,457
oreign currency anslations of oreign operations		69,408	46,361	(30,621)	(5,411)	58,775	39,259	(25,931)	(4,582
ctuarial gains osses) on retirement enefit obligations	*15*	1,090	(7,134)	1,693	2,452	923	(6,041)	1,434	2,076
ub-total		(136,148)	(351,125)	64,110	(56,163)	(115,292)	(297,337)	54,288	(47,560
OTAL OMPREHENSIVE NCOME		(Won) 247,739	(Won) 1,035,466	(Won) 536,299	(Won) 1,208,205	$ 209,788	$ 876,845	$ 454,144	$ 1,023,122
OTAL OMPREHENSIVE NCOME TTRIBUTABLE O:									
ontrolling interests		(Won) 228,707	(Won) 1,030,793	(Won) 562,993	(Won) 1,270,913	(Won) 193,672	(Won) 872,888	(Won) 476,749	(Won) 1,076,224
on-controlling nterests		(Won) 19,032	(Won) 4,673	((Won) 26,694)	((Won) 62,708)	(Won) 16,116	(Won) 3,957	((Won) 22,605)	((Won) 53,102

See accompanying notes to consolidated financial statements.

62

SK TELECOM CO., LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

			Share premium							
Notes	Share capital	Paid-in surplus	Treasury stock	Loss on disposal of treasury stock	Other	Retained earnings	Reserves	Controlling interests	Non-controlling interests	
	(Won) 44,639	(Won) 2,915,887	((Won) 1,992,083)	((Won) 15,875)	((Won) 740,053)	(Won) 9,563,940	(Won) 919,835	(Won) 10,696,290	(Won) 1,151,755	(W
						(680,042)		(680,042)	(1,815)	
						1,323,644	(52,730)	1,270,914	(62,709)	
						1,322,265		1,322,265	(57,897)	
19						1,379	(52,730)	(51,351)	(4,812)	
			(156,088)					(156,088)		
					3,458			3,458	12,287	
	(Won) 44,639	(Won) 2,915,887	((Won) 2,148,171)	((Won) 15,875)	((Won) 736,595)	(Won) 10,207,542	(Won) 867,105	(Won) 11,134,532	(Won) 1,099,518	(W
	(Won) 44,639	(Won) 2,915,887	((Won) 2,202,439)	((Won) 15,875)	((Won) 776,526)	(Won) 10,721,249	(Won) 643,056	(Won) 11,329,991	(Won) 1,078,008	(W
						(668,293)		(668,293)	(2,226)	
						1,389,295	(358,503)	1,030,792	4,674	
						1,396,494		1,396,494	(9,903)	
19						(7,199)	(358,503)	(365,702)	14,577	
17			(208,012)					(208,012)		
					5,868			5,868	3,055	
	(Won) 44,639	(Won) 2,915,887	((Won) 2,410,451)	((Won) 15,875)	((Won) 770,658)	(Won) 11,442,251	(Won) 284,553	(Won) 11,490,346	(Won) 1,083,511	(W

(Continued)

SK TELECOM CO., LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(In thousands of U.S. dollars)	*Notes*	Share capital	Paid-in surplus	Share premium Treasury stock	Share premium Loss on disposal of treasury stock	Other	Retained earnings	Reserves	Controlling interests	Non-controlling interests	Total
Balance, January 1, 2010		$ 37,801	$ 2,469,207	($ 1,686,919)	($ 13,443)	($ 626,686)	$ 8,098,857	$ 778,927	$ 9,057,744	$ 975,320	$ 10,033,064
Cash dividends							(575,868)		(575,868)	(1,537)	(577,405)
Total comprehensive income							1,120,878	(44,652)	1,076,226	(53,104)	1,023,122
Net income							1,119,710		1,119,710	(49,028)	1,070,682
Other comprehensive income	*19*						1,168	(44,652)	(43,484)	(4,076)	(47,560)
Acquisition of treasury stock				(132,177)					(132,177)		(132,177)
Changes in subsidiaries equity						2,928			2,928	10,405	13,333
Balance, September 30, 2010		$ 37,801	$ 2,469,207	($ 1,819,096)	($ 13,443)	($ 623,758)	$ 8,643,867	$ 734,275	$ 9,428,853	$ 931,084	$ 10,359,937
Balance, January 1, 2011		$ 37,801	$ 2,469,207	($ 1,865,051)	($ 13,443)	($ 657,571)	$ 9,078,880	$ 544,547	$ 9,594,370	$ 912,870	$ 10,507,240
Cash dividends							(565,918)		(565,918)	(1,885)	(567,803)
Total comprehensive income							1,176,471	(303,584)	872,887	3,958	876,845
Net income							1,182,568		1,182,568	(8,386)	1,174,182
Other comprehensive income	*19*						(6,097)	(303,584)	(309,681)	12,344	(297,337)
Acquisition of treasury stock	*17*			(176,147)					(176,147)		(176,147)
Changes in subsidiaries equity						4,969			4,969	2,586	7,555
Balance, September 30, 2011		$ 37,801	$ 2,469,207	($ 2,041,198)	($ 13,443)	($ 652,602)	$ 9,689,433	$ 240,963	$ 9,730,161	$ 917,529	$ 10,647,690

See accompanying notes to consolidated financial statements.

SK TELECOM CO., LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

	Notes	Korean won 2011	Korean won 2010	Translation into U.S. dollars (Note 2) 2011	Translation into U.S. dollars (Note 2) 2010
		(In millions)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operating activities:					
Net income		(Won) 1,386,591	(Won) 1,264,368	$ 1,174,182	$ 1,070,682
Adjustments for income and expenses	*27*	2,431,971	2,398,284	2,059,422	2,030,895
Changes in assets and liabilities related to operating activities	*27*	1,246,222	(498,592)	1,055,315	(422,214)
Sub-total		5,064,784	3,164,060	4,288,919	2,679,363
Interest received		123,575	173,381	104,645	146,821
Dividends received		27,425	30,149	23,224	25,531
Interest paid		(241,622)	(306,620)	(204,609)	(259,649)
Income tax paid		(567,259)	(671,693)	(480,362)	(568,798)
Net cash provided by operating activities		4,406,903	2,389,277	3,731,817	2,023,268
CASH FLOWS FROM INVESTING ACTIVITIES:					
Cash inflows from investing activities:					
Decrease in short-term investment securities, net		112,000	280,000	94,843	237,107
Collection of short-term loans		145,439	173,046	123,159	146,537
Decrease in long-term financial instruments		3		3	
Proceeds from sales of long-term investment securities		258,158	430,918	218,611	364,906
Proceeds from disposal of associates		5,141	45,159	4,353	38,241
Proceeds from disposal of property and equipment		21,947	22,102	18,585	18,716
Proceeds from disposal of intangible assets		2,767	7,009	2,343	5,935
Collection of long-term loans		29,260	76,073	24,778	64,420
Decrease in other non-current assets		1,136	2,971	962	2,517
Proceeds from disposal of consolidated subsidiary		1,000	16,230	847	13,744
Sub-total		576,851	1,053,508	488,484	892,123
Cash outflows for investing activities:					
Increase in short-term financial instruments, net		393,086	133,273	332,870	112,857
Increase in short-term loans		182,486	190,534	154,531	161,346
Increase in long-term financial instruments		7,650	10,052	6,478	8,512
Acquisition of long-term investment securities		254,365	103,433	215,399	87,588
Acquisition of associates		61,896	659,531	52,414	558,499
Acquisition of property and equipment		1,756,706	1,074,312	1,487,599	909,740
Acquisition of investment property		60,801		51,487	
Acquisition of goodwill			1,012		857
Acquisition of intangible assets		74,752	74,924	63,301	63,447
Increase in long-term loans		4,901	85,099	4,150	72,063
Increase in other non-current assets		2,562	545	2,170	461
Acquisition of consolidated subsidiary		13,626		11,539	

Sub-total	2,812,831	2,332,715	2,381,938	1,975,370
Net cash used in investing activities	((Won) 2,235,980)	((Won) 1,279,207)	($ 1,893,454)	($ 1,083,247)

(Continued)

65

SK TELECOM CO., LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

	Korean won		Translation into U.S. dollars (Note 2)	
	2011	2010	2011	2010
	(In millions)		(In thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Cash inflows from financing activities:				
Proceeds from short-term borrowings	(Won) 1,206,434	(Won) 607,376	$ 1,021,622	$ 514,333
Issuance of bonds payable	438,035		370,933	
Proceeds from long-term borrowings	95,492	116,733	80,864	98,851
Increase in equity of consolidated subsidiaries	6,457	4,973	5,468	4,211
Sub-total	1,746,418	729,082	1,478,887	617,395
Cash outflows for financing activities:				
Repayment of short-term borrowings	574,247	356,783	486,279	302,128
Repayment of current portion of long-term debt	550,943	470,657	466,545	398,558
Repayment of bonds payable	332,160	370,000	281,277	313,320
Repayment of long-term borrowings	500,000	16,097	423,406	13,631
Payment of dividends	668,293	680,100	565,918	575,917
Acquisition of treasury stock	208,012	156,088	176,147	132,177
Cash outflows from transaction of derivatives	17,695		14,984	
Sub-total	2,851,350	2,049,725	2,414,556	1,735,731
Net cash used in financing activities	(1,104,932)	(1,320,643)	(935,669)	(1,118,336)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,065,991	(210,573)	902,694	(178,315)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	659,405	886,632	558,392	750,810
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVAENTS HELD IN FOREIGN CURRENCY	3,323	(3,656)	2,814	(3,096)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	(Won) 1,728,719	(Won) 672,403	$ 1,463,900	$ 569,399

See accompanying notes to consolidated financial statements.

66

SK TELECOM CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 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 September 30, 2011, the Company s total issued shares are held by the following:

	Number of shares	Percentage of total shares issued (%)
SK Holdings, Co., Ltd.	18,748,452	23.22
Tradewinds Global Investors, LLC	4,050,518	5.02
POSCO Corp.	2,341,569	2.90
Institutional investors and other minority stockholders	44,554,460	55.17
Treasury stock	11,050,712	13.69
	80,745,711	100.00

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 Korean statutory requirements and Korean International Financial Reporting Standards (K-IFRS), in the Korean language (Hangul). Accordingly, these consolidated financial statements are intended for use by those who are informed about K-IFRS and Korean practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English with certain expanded descriptions from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company s financial position, income, comprehensive income, changes in shareholders equity or cash flows, is not presented in the accompanying consolidated financial statements.

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 (Won)1,180.90 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 nine months ended September 30, 2011. Such translations into U.S. dollars should not be construed as representations that the Korean won amounts could be converted into U.S. dollars at that or any other rate.

a. Basis of Presentation

The Company has adopted the 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 Company s interim consolidated financial statements for the nine months ended September 30, 2011 and 2010 are prepared in accordance with K-IFRS 1034 Interim Financial Reporting . The interim consolidated financial statements are prepared in accordance with the K-IFRS that are effective as of September 30, 2011.

There may be newly or amended K-IFRS and interpretations that are effective subsequent to the current period-end. Accordingly, accounting policies that are used for the preparation of the interim consolidated financial statements may be different from the policies that are used for the preparation of the first annual consolidated financial statements in accordance with K-IFRS as of and for the period ending December 31, 2011. Currently, enactments and amendments of the K-IFRSs are in progress, and the financial information presented in the interim financial statements may change accordingly in the future.

Major accounting policies used for the preparation of the interim consolidated 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 interim consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

b. Basis of Consolidation

The consolidated financial statements include the accounts of SK Telecom and the following controlled subsidiaries as of September 30, 2011 (in millions of Korea won, except for share data).

Subsidiary	Primary business		Net equity	Number of shares	Ownership Percentage(%)	Location
SK Telink Co., Ltd.	Telecommunication services	(Won)	193,510	1,082,272	83.5	Korea
SK Communications Co., Ltd.	Internet website services		237,035	28,029,945	64.6	Korea
PAXNet Co., Ltd.	Internet website services		23,433	5,590,452	59.7	Korea
Loen Entertainment, Inc.	Release of music disc		91,619	16,054,812	63.5	Korea
Stonebridge Cinema Fund	Investment association		16,749	150	57.0	Korea
Ntreev Soft Co., Ltd.	Game software production		20,059	2,064,970	63.7	Korea
SK i-media Co., Ltd.	Game software production		(1,395)	10,000,000	100.0	Korea
Commerce Planet Co., Ltd.	Online shopping mall operation agency		(2,003)	29,396	100.0	Korea
SK Broadband Co., Ltd.	Telecommunication services		1,376,502	149,638,354	50.6	Korea
Broadband D&M Co., Ltd.	Base station maintenance service		5,150	900,000	100.0	Korea
Broadband Media Co., Ltd.	Multimedia TV portal services		(258,578)	25,200,000	100.0	Korea
Broadband CS Co., Ltd.	Customer Q&A and services		(11,901)	1,210,596	100.0	Korea
K-net Culture and Contents Venture Fund	Investment association		48,511	295	59.0	Korea
2nd BMC Focus Investment Fund	Investment association		28,860	200	66.7	Korea
Open Innovation Fund	Investment association		44,605	450	98.9	Korea
PS&Marketing Corporation	Communications device retail business		155,999	46,000,000	100.0	Korea
Service Ace Co., Ltd.	Customer center management service		26,346	4,385,400	100.0	Korea
Service Top Co., Ltd.	Customer center management service		16,878	2,856,200	100.0	Korea
Network O&S Co., Ltd.	Base station maintenance service		21,551	3,000,000	100.0	Korea
BNCP Co., Ltd.	Internet website services		19,301	8,820,000	100.0	Korea
Service-In Co., Ltd.	Database & on-line information service		2,565	500,000	100.0	Korea
SK Telecom China Holdings Co., Ltd.	Equity Investment		33,450		100.0	China
Sky Property Mgmt., Ltd.	Real Estate Investment		495,292	22,980	60.0	China
Shenzhen E-eye High Tech Co., Ltd.	Manufacturing		20,096		65.5	China
SK China Real Estate Co., Ltd.	Real Estate Investment		82,862	70,000,000	99.4	Hongkong
SKT Vietnam PTE., Ltd.	Telecommunication services		33,461	180,476,700	73.3	Singapore
SKT Americas, Inc.	Information gathering and consulting		45,884	109	100.0	USA
YTK Investment Ltd	Investment Association		52,382		100.0	Cayman
Technology Innovation Partners, LP	Investment Association		17,220		100.0	Cayman
Atlas Investment	Investment Association		52,245		100.0	USA
	Investment Association		37,402	18,000	100.0	Netherlands

SK Telecom Global Investment B.V.				
SK Telecom China Fund I L.P.	Investment Association	1,087	100.0	Cayman

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 policies 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 up to 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 this 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 into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full under consolidation

Changes in the Company s ownership interests in subsidiaries that do not result in the Company losing control over the 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 profit or loss 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 profit or loss or transferred directly to retained earnings).

c. 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 generally recognized in profit or loss 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 faire 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 profit or loss 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 profit or loss. 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 profit or loss as if that interest were disposed of.

d. Foreign Currency Exchange

The individual financial statements of each Company 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 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); 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 profit or loss 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 profit or loss.

e. 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.

f. 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 investments , available-for-sale 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 fair value through profit or loss (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 profit or loss. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognized immediately in profit or loss.

1-2) Held-to-maturity 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 held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue amortized on an effective yield basis.

1-3) Available-for-sale financial assets

Non-derivatives financial assets that are not classified as at held-to-maturity; held-for-trading; designated as at fair value through profit or loss; or loans and receivables are classified as at available-for-sale financial assets. Available-for-sale financial assets are initially recognized and 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 profit or loss. 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 profit or loss. Dividends on available-for-sale financial assets are recognized in profit or loss 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 investment have been affected.

For listed and unlisted equity investments classified as available-for-sale 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 available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

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.

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 financial assets carried at amortized cost, 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 profit or loss 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.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. 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 available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

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 profit or loss.

3) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, 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.

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 market value of inventories is less than the acquisition cost, the carrying amount is reduced to the market value and any difference is charged to current operations as operating expenses.

h. Investments in Associates

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 K-IFRS 1105 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 profit or loss 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 profit or loss.

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.

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
Other	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.

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 profit or loss 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 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.

l. 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 their estimated useful lives ranging from 3 ~ 20 years. 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. At the case of amortizable intangible assets, the Company reviews impairment at each time whether the events are occurring that the carrying amount is not 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 profit or loss when the asset is derecognized.

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 consolidated 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 profit or loss 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. 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 fair value through profit or loss (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 profit or loss 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 profit or loss. The net gain or loss recognized in profit or loss 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 they expire. An exchange between an existing borrower and lender of debt instruments 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 profit or loss.

p. 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 profit or loss, 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 profit or loss immediately unless the derivative is designated and effective as a hedging instrument. 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 (loss).

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 all actuarial gains and losses arising from defined benefit plans as other comprehensive income (loss) and records at retained earnings immediately, which is not reclassified to current operation 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. Discount rate is pre-tax interest rate reflecting inherent risk of liabilities and market s valuation on the present value of monetary. Changes in provisions caused by elapse of time are the financial cost as incurred and recognized in profit or loss.

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 from the sale of goods and rendering of services in the course of ordinary operating activities is measured at the fair value of the consideration received or receivable. Revenues are realized or realizable and earned when the Company has persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, sales price is fixed or determinable and collectability is reasonably assured.

The Company s revenue is principally derived from telecommunication services including data services, broadband internet and fixed-line telephone services. Telecommunication services consist of fixed monthly charges, usage-related charges and non-refundable activation fees. Fixed monthly charges are recognized in the period earned. Usage-related charges are recognized at the time services are rendered. Non-refundable activation fees are deferred and recognized over the expected term of the customer relationship.

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 profit for the year. Taxable profit differs from profit 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 profit. 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 profits 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 profit nor the accounting profit.

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 profits 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 profits 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 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 and the subsidies are charged to commission paid as the related payments are made.

When 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 to be paid, which is recognized as to commissions paid at the time telecommunication service contracts are made.

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 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 profit or loss 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 the management s judgments on the expected future cash flows and discount rates.

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

Based on the aging of accounts receivables, past experience of bad debt, and economic and industrial factors, the Company estimates bad debt for the period and recognizes an allowance for the bad debt.

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 directors to estimate the future cash flows expected to arise from the cash-generating unit and an appropriate discount rate in order to calculate present value.

4) Measurement of property and equipment, intangible assets

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

5) Provisions

Determining whether the Company will be required to settle the obligation incurred as a result of a past event, and estimating reliable value of obligation require the management s judgement.

6) 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.

7) Deferred tax

Recognizing and measuring of the deferred tax assets and liabilities requires the management s judgments and specially, whether and how deferred tax assets is recognized shall be affected from an assumption and management s judgment of the future situation.

3. TRANSITION TO K-IFRS

As stated in Note 2, these are the Company s first consolidated financial statements prepared in accordance with K-IFRS, as the Company adopts K-IFRS in 2011. Therefore, prior period s consolidated financial statements, comparatively presented herein, were restated in accordance with K-IFRS 1101 First-time adoption of International Financial Reporting Standards with a transition date of January 1, 2010.

a. K-IFRS 1101 First-time adoption of K-IFRS - optional exemptions

K-IFRS 1101 provides for a number of optional exemptions from the general principle of full retrospective applications of K-IFRS. The optional exemptions for first-time adoption of K-IFRS of the Company elected are as follows.

1) Business combination

Business combinations that occurred before the date of transition to K-IFRS, were not retrospectively restated.

2) Fair value or revaluation as deemed cost

Certain property and equipment were revaluated at the date of transition to K-IFRS and such revaluation is used as the asset s deemed cost.

b. Explanation of effect of transition to K-IFRS

Effects on financial position at January 1, 2010 (date of transition) are as follows (in millions of Korean won):

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

Effects on 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):

	Total assets	Total liabilities	Net equity	Total comprehensive income
Based on Korean GAAP	(Won) 22,651,704	(Won) 10,173,055	(Won) 12,478,649	(Won) 1,021,501
Adjustments:				
1. Changes in scope of consolidation	(103,743)	(13,053)	(90,690)	1,247
2. Property and equipment	477,044		477,044	407,811
3. Amortization of goodwill	151,900	(9,444)	161,344	151,620
4. Employee benefits and retirement benefit obligation	17	38,799	(38,782)	(5,514)
5. Transfer of financial assets				(15,489)
6. Effect on equity method in associates	18,430		18,430	7,717
7. Nonrefundable activation fees		533,783	(533,783)	60,199
8. Other adjustments	44,507	94,943	(50,436)	598
9. Deferred tax and tax effect of adjustments	(107,470)	(93,693)	(13,777)	(150,139)
Total adjustment	480,685	551,335	(70,650)	458,050
Based on K-IFRS	(Won) 23,132,389	(Won) 10,724,390	(Won) 12,407,999	(Won) 1,479,551

The adjustments of effects on financial position at September 30, 2010 and the results of operation for the three months and nine months ended September 30, 2010 are not presented in the accompanying financial statements as the Company did not prepare consolidated financial statements for the three months and nine months ended September 30, 2010 under Korean GAAP.

82

Under K-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 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 consolidated statements of cash flows prepared under Korean GAAP compared to K-IFRS have been noted.

c. Explanation of transition to K-IFRS

Transition adjustments from previous GAAP (Korean GAAP) to K-IFRSs that affected the Company s financial position, financial performance and cash flows are as follows.

1) Scope of consolidation

As at the date of transition to K-IFRS the Company s change in scope of consolidation is as follows:

Newly Added

Under Korean GAAP, subsidiaries whose total assets, as of December 31 of the prior year, were less than (Won)10 billion, were excluded from consolidation pursuant to the former Act on External Audit of Stock Companies Article 1.3 section 2.1 in the Republic of Korea. Under K-IFRS, such subsidiaries are subject to consolidation regardless of significance.

Excluded

Under Korean GAAP, entities (subsidiaries) of which the Company has over 30% of the voting rights and is the largest shareholder, were included in consolidation pursuant to the former Act on External Audit of Stock Companies Article 1.3 section 2.1 in the Republic of Korea. Under K-IFRS, as the Company does not have controlling power over the entities, entities are excluded from consolidation.

Changes	Name of entities
Newly 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) Employee benefits and retirement benefit obligation

Under Korean GAAP, at the end of a reporting period a benefit obligation is calculated and recognized, based on an assumption that all employees who have worked over a year were to retire as of the reporting period end. While, under K-IFRS, the retirement benefit amount is appropriated as a defined benefit obligation by actuarial assessment using the projected unit credit method.

Also, the Company recognizes its long-term employee benefits obligation by actuarial assessment using the projected unit credit method.

3) Change in depreciation method

The Company changed the depreciation method of equipment from declining balance method to straight-line method.

4) Goodwill acquired by business combinations

Under Korean GAAP, the Company amortized goodwill acquired as a result of business combinations on a straight-line method from 5 ~ 20 years from the year of acquisition. Under K-IFRS, goodwill is not amortized but reviewed for impairment annually.

5) Transfer of financial assets

Under Korean GAAP, when the Company transferred a financial asset to financial institutions and it was determined that control over the asset has been transferred the Company derecognized the financial asset. Under K-IFRS, if the Company retains substantially 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.

6) Deferment of non-refundable activation fees

Under Korean GAAP, the Company recognizes non-refundable activation revenues when the activation service is performed. Under K-IFRS, the Company defers such revenues and amortizes it over the expected term of the customer relationship.

7) 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, difference between the carrying value and the tax base of the investments in subsidiaries, branches and 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, branches 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.

8) Other reclassifications

(1) Memberships

Under Korean GAAP, facility-use memberships and guarantee deposits were classified as other non-current assets.

Under K-IFRS, facility-use memberships are recognized as intangible assets with an indefinite useful life and guarantee deposits that satisfy the definition of financial assets are classified as loans and receivables at amortized costs.

(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, such properties are reclassified separately as investment properties.

4. FINANCIAL INSTRUMENTS

Details of financial assets as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011				
	Financial assets designated as FVTPL	Available-for-sale financial assets	Loans and receivables	Derivatives designated as hedging instruments	Total
Cash and cash equivalents	(Won)	(Won)	(Won) 1,728,505	(Won)	(Won) 1,728,505
Financial Instruments			968,002		968,002
Short-term investment securities		90,669			90,669
Long-term investment securities (Note a)	15,067	1,545,066			1,560,133
Trade receivables			1,953,774		1,953,774
Loan and other receivables (Note b)			1,800,402		1,800,402
Derivatives assets	1,273			226,906	228,179
Total	(Won) 16,340	(Won) 1,635,735	(Won) 6,450,683	(Won) 226,906	(Won) 8,329,664

	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	(Won)	(Won)	(Won) 659,405	(Won)	(Won) 659,405
Financial Instruments			567,269		567,269
Short-term investment securities		400,531			400,531
Long-term investment securities		1,680,582			1,680,582
Trade receivables			1,971,815		1,971,815
Loan and other receivables (Note b)			3,518,690		3,518,690
Derivatives assets	1,961			201,421	203,382
Total	(Won) 1,961	(Won) 2,081,113	(Won) 6,717,179	(Won) 201,421	(Won) 9,001,674

(Note a) Long-term investment securities designated as FVTPL consist of financial instruments with an embedded derivatives (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 loan and other receivables as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Short-term loans	(Won) 99,643	(Won) 94,924
Accounts receivable other	1,343,877	2,531,847
Advanced payments and other	19,388	30,157
Long-term loans	91,862	84,323
Long-term accounts receivable other	8,322	527,106
Guarantee deposits	237,310	250,333

	(Won) 1,800,402	(Won) 3,518,690

85

Details of financial liabilities as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011			
	Financial liabilities designated as FVTPL	Financial liabilities at amortized cost	Derivatives designated as hedging instruments	Total
Account payables-trade	(Won)	(Won) 201,567	(Won)	(Won) 201,567
Derivatives liabilities	1,654		811	2,465
Borrowings		1,523,976		1,523,976
Bonds payable (Note a)	409,278	3,910,789		4,320,067
Other payables (Note b)		2,129,244		2,129,244
Total	(Won) 410,932	(Won) 7,765,576	(Won) 811	(Won) 8,177,319

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

(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 profit and loss.

86

(Note b) Details of other payables as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Accounts payable-other	(Won) 1,094,487	(Won) 1,433,812
Withholdings	11,907	5,137
Accrued expenses	657,384	677,480
Current portion of long-term debt	49,106	215,416
Long-term payables other	235,721	54,783
Finance lease liabilities	43,541	60,075
Other non-current liabilities	37,098	40,086
	(Won) 2,129,244	(Won) 2,485,789

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 September 30, 2011 are as follows (in millions of Korean won):

Type	Level 1	Level 2	Level 3	Total
Financial assets designated as FVTPL	(Won)	(Won) 15,067	(Won) 1,273	(Won) 16,340
Available-for-sale financial assets	1,176,346	25,370	8,695	1,210,411
Derivatives assets designated as hedging instruments		226,906		226,906
Financial liabilities designated as FVTPL	409,278	1,654		410,932
Derivatives liabilities designated as hedging instruments		811		811

87

5. TRADE AND OTHER RECEIVABLES

Details of short-term trade and other receivables as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Accounts receivable trade	(Won) 2,208,725	(Won) 2,198,050
Less allowance for doubtful accounts	(268,539)	(248,653)
Accounts receivable trade, net	1,940,186	1,949,397
Short-term loans	101,902	96,353
Less allowance for doubtful accounts	(2,259)	(1,429)
Short-term loans, net	99,643	94,924
Accounts receivable other	1,391,062	2,577,961
Less allowance for doubtful accounts	(47,185)	(46,114)
Accounts receivable other, net	1,343,877	2,531,847
Accrued income	18,856	29,578
Less allowance for Accrued income	(142)	
Accrued income, net	18,714	29,578
Other	675	580
	(Won) 3,403,095	(Won) 4,606,326

Details of long-term trade and other receivables as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Long-term accounts receivable trade	(Won) 13,588	(Won) 22,418
Long-term loans	123,191	115,509
Less allowance for doubtful accounts	(31,329)	(31,186)
Long-term loans, net	91,862	84,323
Long-term accounts receivable other	8,322	527,106
Guarantee deposits	237,310	250,333
	(Won) 351,082	(Won) 884,180

88

Details of changes in allowance for doubtful accounts for the nine months ended September 30, 2011 and 2010 are as follows (In millions of Korean won):

	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Beginning balance	(Won) 327,382	(Won) 320,680
Increase of Bad debt	56,550	61,715
Reversal of allowance for doubtful accounts	(1,737)	(259)
Write-off	(51,480)	(46,517)
Collection of receivables written off	19,562	17,685
Change in scope of consolidation and foreign exchange differences	(823)	(126)
Ending balance	(Won) 349,454	(Won) 353,178

Details of aging analysis of accounts receivable which are overdue but not impaired as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011		December 31, 2010	
	Accounts receivable-trade	Accounts receivable-other	Accounts receivable-trade	Accounts receivable-other
Less than 1 month	(Won) 198,575	(Won) 18,191	(Won) 242,574	(Won) 58,014
1 ~ 3 months	91,009	21,340	106,063	22,363
3 ~ 6 months	35,828	14,918	45,823	17,128
More than 6 months	122,845	32,340	187,598	35,072
	(Won) 448,257	(Won) 86,789	(Won) 582,058	(Won) 132,577

6. INVENTORIES

Inventories as of September 30, 2011 and December 31, 2010 consist of the following (in millions of Korean won):

	September 30, 2011	December 31, 2010
Raw materials and Supplies	(Won) 6,211	(Won) 3,319
Work in process and Semi-finished goods	95	475
Finished goods and Merchandise	172,019	147,445
Total	178,325	151,239
Less allowance for valuation loss	(1,895)	(2,016)
Net	(Won) 176,430	(Won) 149,223

7. INVESTMENT SECURITIES

Details of investment securities as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011		December 31, 2010	
	Current	Non-current	Current	Non-current
Equity securities:				
Investments in listed company	(Won)	(Won) 1,088,927	(Won) 178,760	(Won) 1,230,381
Investments in non-listed company	241	54,736	15,051	75,227
Investments in funds and etc.		365,576		345,680
Sub-total	241	1,509,239	193,811	1,651,288
Debt Securities	3,009	50,894	2,004	29,294
Beneficiary certificates (Note)	87,419		204,716	
Total	(Won) 90,669	(Won) 1,560,133	(Won) 400,531	(Won) 1,680,582

(Note) The distributions arising from some beneficiary certificates as of September 30, 2011, are accounted for as accrued income.

8. INVESTMENTS IN ASSOCIATES

Investments in associates accounted for using the equity method as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won, except for share data):

	September 30, 2011				Carrying amount	
	Number of shares	Ownership percentage (%)	Acquisition Cost		September 30, 2011	December 31, 2010
SK Marketing & Company Co., Ltd.	5,000,000	50.0	(Won) 190,000		(Won) 124,803	(Won) 117,905
SK China Company Ltd.	720,000	22.5	49,529		48,091	46,573
SK USA, Inc.	49	49.0	3,184		5,821	5,972
BMC Sector Limited Partnership IV	2,500	49.7	25,000		23,651	24,953
F&U Credit information Co., Ltd.	300,000	50.0	2,410		3,412	4,529
Korea IT Fund	190	63.3	190,000	(Note a)	236,572	226,633
JYP Entertainment Corporation	691,680	25.5	4,150		4,015	4,150
Konan Technology	78,550	29.5	13,456		4,082	4,410
Etoos Co., Ltd	701,000	15.6	18,993	(Note b)	14,867	14,339
BMC Digital Culture and Contents Venture Fund	100	39.8	10,000		8,533	8,925
Wave City Development Co., Ltd.	382,000	19.1	1,967	(Note b)	1,182	1,392
IBKC-bmc Cultural Contents Fund		25.0	2,500		2,383	2,292
Hanhwa No.2 Daisy Entertainment Investment Fund		20.0	2,000		1,454	2,008
BMC Movie Expert Fund	135	46.6	13,500		14,052	13,977
HanaSK Card Co., Ltd.	57,647,058	49.0	400,000		392,737	386,417
Daehan Kanggun BcN Co., Ltd.	1,461,486	29.0	7,307		7,264	7,264
Television Media Korea Ltd.	18,564,000	51.0	18,568	(Note c)	16,555	18,568
Candle Media Co., Ltd. (formerly PREGM Co., Ltd.)	11,010,280	28.9	26,334		18,848	19,313
NanoEnTek, Inc.	1,807,130	9.3	11,000	(Note d)	10,469	

UNISK(Beijing) Information Technology Co., Ltd.	49	49.0	3,475		5,881	4,714
PT. Melon Indonesia	4,900,000	49.0	6,492		5,713	6,210
Packet One Network	1,151,556	28.2	137,751	(Note e)	116,549	116,160
Mobile Money Ventures, LLC		50.0	12,763		1,035	3,206
SK Technology Innovation Company		49.0	28,146		23,208	25,052
LightSquared Inc.	3,387,916	3.3	72,096	(Note b)	56,782	72,096
SK Wyverns Baseball Club Co., Ltd. and other			153,559		98,551	67,634
Total			(Won) 1,404,180		(Won) 1,246,510	(Won) 1,204,692

90

(Note a)	Under an agreement with Korea IT Fund, the Company only has 14.3% voting rights, resulting in the Company having no control over Korea IT Fund
(Note b)	The Company classified investments in Etoos Co., Ltd., Wave City Development Co., Ltd., and Light squared Inc., as investments in associates, as the Company can exercise significant influence on these investees through participation in board of directors, even though the Company has less than 20% of equity interests in those investees.
(Note c)	Television Media Korea Ltd. is a joint venture as accounted for as investments in associates.
(Note d)	For the nine months ended September 30, 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., and as such entity is considered as an equity method investee.
(Note e)	For the nine months ended September 30, 2011, The Company additionally invested (Won)17,895 million in Packet One Network and acquired additional 172,082 shares.

Details of changes in Investments in associates accounted for using the equity method for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended September 30, 2011							
	Beginning balance	Acquisition	Disposal	Equity in earnings (losses)	Other comprehensive income	Other increase (decrease)	Dividend	Ending balance
SK Marketing & Company Co., Ltd.	(Won) 117,905	(Won)	(Won)	(Won) 6,343	(Won) 820	((Won) 265)	(Won)	(Won) 124,803
SK China Company Ltd.	46,573			(159)	1,677			48,091
SK USA, Inc.	5,972			(360)	209			5,821
BMC Sector Limited Partnership IV	24,953			(1,089)	(213)			23,651
F&U Credit information Co., Ltd.	4,529			(117)			(1,000)	3,412
Korea IT Fund	226,633			10,406	(467)			236,572
JYP Entertainment Corporation	4,150			(135)				4,015
Konan Technology	4,410			(327)	(1)			4,082
Etoos Co., Ltd	14,339			229	299			14,867
BMC Digital Culture and Contents Venture Fund	8,925			(392)				8,533
Wave City Development Co., Ltd.	1,392			(210)				1,182
IBKC-bmc Cultural Contents Fund	2,292			91				2,383
Hanhwa No.2 Daisy Entertainment Investment Fund	2,008			(554)				1,454
BMC Movie Expert Fund	13,977			75				14,052
HanaSK Card Co., Ltd.	386,417			6,186	(156)	290		392,737
Daehan Kanggun BcN Co., Ltd.	7,264							7,264
Television Media Korea Ltd.	18,568			(2,013)				16,555
Candle Media Co., Ltd. (formerly PREGM Co., Ltd.)	19,313	1,000		(1,651)	7	179		18,848

NanoEnTek, Inc.		11,000		(490)	(23)	(18)		10,469
UNISK(Beijing) Information Technology Co., Ltd.	4,714			483	684			5,881
PT. Melon Indonesia	6,210			(783)	286			5,713
Packet One Network	116,160	17,895		(20,485)	(27)	3,006		116,549
Mobile Money Ventures, LLC	3,206		(2,739)	617		(49)		1,035
SK Technology Innovation Company	25,052			(2,542)	698			23,208
LightSquared Inc.	72,096			(17,405)	2,091			56,782
SK Wyverns Baseball Club Co., Ltd. and other	67,634	32,001	(3,715)	(200)	(115)	2,946		98,551
Total	(Won) 1,204,692	(Won) 61,896	((Won) 6,454)	((Won) 24,482)	(Won) 5,769	(Won) 6,089	((Won) 1,000)	(Won) 1,246,510

(Note) For the nine months ended September 30, 2011, equity in earnings (losses) of investments in associates in the statements of income includes (Won)2,554 million of gain on disposal of investments in associates and (Won)164 million of loss on disposal of investments in associates, which is not reflected above.

For the nine months ended September 30, 2010

	Beginning balance	Acquisition	Disposal	Equity in earnings (losses)	Other comprehensive income	Other increase (decrease)	Dividend	Ending balance
SK Marketing & Company Co., Ltd.	(Won) 112,531	(Won)	(Won)	(Won) 3,777	((Won) 47)	(Won)	(Won)	(Won) 116,261
SK China Company Ltd.	3,918	44,859	(947)					47,830
SK USA, Inc.	5,498							5,498
F&U Credit information Co., Ltd.	4,481			(86)				4,395
IHQ, Inc.	20,178			(1,490)	(16)	(18,672)		
Korea IT Fund	220,957			6,509	954		(2,958)	225,462
Konan Technology	3,320							3,320
Hanaro Dream Incorporation	6,687		(6,687)					
BMC Digital Culture and Contents Venture Fund	9,824			(481)				9,343
Wave City Development Co., Ltd.	1,532							1,532
IBKC-bmc Cultural Contents Fund	2,398			(83)				2,315
Hanhwa No.2 Daisy Entertainment Investment Fund	2,102			(84)				2,018
BMC Movie Expert Fund	13,261			587				13,848
HanaSK Card Co., Ltd.		400,000		(16,282)	(222)			383,496
Daehan Kanggun BcN Co., Ltd.	7,272			(9)				7,263
Candle Media Co., Ltd. (formerly PREGM Co., Ltd.)	15,000							15,000
UNISK(Beijing) Information Technology Co., Ltd.	4,247							4,247
SK Industrial Development	18,009					(18,009)		
Skytel Co., Ltd.	14,958			2,833	1,337		(444)	18,684
Mobile Money Ventures, LLC	5,534			(1,820)		(86)		3,628
SK Wyverns Baseball Club Co., Ltd. and other	78,206	214,672	(12,134)	(3,194)	173	1,801		279,524

Total	(Won) 549,913	(Won) 659,531	((Won) 19,768)	((Won) 9,823)	(Won) 2,179	((Won) 34,966)	((Won) 3,402)	(Won) 1,143,664

(Note) For the nine months ended September 30, 2010, equity in earnings (losses) of investments in associates in the statements of income includes (Won)10,393 million of gain on disposal of investments in associates which is not reflected above.

9. PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Land	(Won) 730,566	(Won) 707,970
Buildings and structures	2,027,738	1,988,759
Machinery	20,552,739	19,742,398
Other	1,691,328	1,414,837
Construction in progress	435,124	447,480
Total	25,437,495	24,301,444
Less accumulated depreciation	(17,226,605)	(16,146,012)
Accumulated impairment	(1,941)	(2,019)
Property and equipment, net	(Won) 8,208,949	(Won) 8,153,413

Details of changes in property and equipment for the nine months ended September 30, 2011 and 2010 are as follows (In millions of Korean won):

	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Assets held for sale	Ending balance
Land	(Won) 707,970	(Won) 2,109	((Won) 1,947)	(Won) 22,434	(Won)	(Won)	(Won) 730,566
Buildings and structures	1,260,633	38,873	(6,739)	9,167	(63,349)		1,238,585
Machinery	5,167,143	167,757	(14,393)	976,419	(1,292,851)	(25)	5,004,050
Other	570,187	927,739	(3,202)	(618,212)	(75,827)	(61)	800,624
Construction in progress	447,480	817,417	(8,061)	(821,712)			435,124
Total	(Won) 8,153,413	(Won) 1,953,895	((Won) 34,342)	((Won) 431,904)	((Won) 1,432,027)	((Won) 86)	(Won) 8,208,949

	For the nine months ended September 30, 2010					
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	(Won) 706,599	(Won) 109	((Won) 6,919)	((Won) 1,102)	(Won)	(Won) 698,687
Buildings and structures	1,316,534	1,913	(1,358)	10,475	(63,150)	1,264,414
Machinery	5,211,662	137,768	(13,272)	533,686	(1,160,165)	4,709,679
Other	375,855	528,914	(2,389)	(315,662)	(64,855)	521,863
Construction in progress	417,027	405,608	(27,870)	(284,167)		510,598
Total	(Won) 8,027,677	(Won) 1,074,312	((Won) 51,808)	((Won) 56,770)	((Won) 1,288,170)	(Won) 7,705,241

94

10. INVESTMENT PROPERTY

Investment property as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Land	(Won) 21,976	(Won) 29,179
Buildings	298,170	183,406
Total	320,146	212,585
Less accumulated depreciation	(48,076)	(15,278)
Investment property, net	(Won) 272,070	(Won) 197,307

Details of changes in investment property for the nine months ended September 30, 2011 and 2010 are as follows (In millions of Korean won):

	For the nine months ended September 30, 2011					
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	(Won) 19,670	(Won)	(Won)	(Won) 2,306	(Won)	(Won) 21,976
Buildings	177,637	60,801		16,568	(4,912)	250,094
Total	(Won) 197,307	(Won) 60,801	(Won)	(Won) 18,874	((Won) 4,912)	(Won) 272,070

	For the nine months ended September 30, 2010					
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	(Won) 23,602	(Won)	(Won)	(Won) 1,102	(Won)	(Won) 24,704
Buildings	189,140			(9,375)	(3,887)	175,878
Total	(Won) 212,742	(Won)	(Won)	((Won) 8,273)	((Won) 3,887)	(Won) 200,582

Details of fair value of investment property as of September 30, 2011 and December 31, 2010 are as follows (In millions of Korean won):

	September 30, 2011	December 31, 2010
Land	(Won) 40,540	(Won) 39,082
Buildings	248,973	176,465
	(Won) 289,513	(Won) 215,547

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

11. GOODWILL

Details of goodwill as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Goodwill related to acquisition of Shinsegi Telecomm, Inc	(Won) 1,306,236	(Won) 1,306,236
Goodwill related to acquisition of SK Broadband Co., Ltd.	358,443	358,443
Other goodwill	90,243	80,975
Net foreign exchange differences	118	(9,005)
	(Won) 1,755,040	(Won) 1,736,649

12. INTANGIBLE ASSETS

Details of changes in intangible assets for the nine months ended September 30, 2011 and 2010 are as follows (In millions of Korean won):

	For the nine months ended September 30, 2011							
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment	Assets held for sale	Ending balance
Frequency use rights	(Won) 709,043	(Won)	(Won)	(Won) 404,971	((Won) 109,768)	(Won)	(Won)	(Won) 1,004,246
Land use right	17,551	4,720	(54)		(4,201)			18,016
Industrial right	60,740	1,440	(1)	323	(2,788)			59,714
Software development costs	26,470	3,779		(510)	(6,618)	(459)	(2,965)	19,697
Customer relationships	226,940	98			(69,226)			157,812
Membership (Note a)	111,736	6,310	(2,439)					115,607
Other (Note b)	732,476	58,405	(631)	99,634	(265,779)	(1,100)	(46)	622,959
Total	(Won) 1,884,956	(Won) 74,752	((Won) 3,125)	(Won) 504,418	((Won) 458,380)	((Won) 1,559)	((Won) 3,011)	(Won) 1,998,051

	For the nine months ended September 30, 2010						
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment	Ending balance
Frequency use rights	(Won) 727,239	(Won)	(Won)	(Won)	((Won) 87,398)	(Won)	(Won) 639,841
Land use right	12,534	6,420			(3,057)		15,897
Industrial right	60,918	3,054		5	(3,063)		60,914
Software development costs	35,714	8,619		429	(8,483)		36,279

Customer relationships	317,670			755	(68,750)		249,675
Membership (Note a)	107,495	1,290	121				108,906
Other (Note b)	742,648	55,541	(7,392)	123,711	(252,687)	(204)	661,617
Total	(Won) 2,004,218	(Won) 74,924	((Won) 7,271)	(Won) 124,900	((Won) 423,438)	((Won) 204)	(Won) 1,773,129

(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, usable and profitable donation assets.

The book value and residual useful lives of major intangible assets as of September 30, 2011 are as follows (in millions of Korean won):

	Amount	Description	Residual useful lives
IMT license	(Won) 509,578	Frequency use rights relating to W-CDMA service	(note a)
W-CDMA license	85,633	Frequency use rights relating to W-CDMA service	(note b)
800MHz license	395,304	Frequency use rights relating to CDMA and LTE service	(note c)
WiBro license	10,356	WiBro service	(note d)
DMB license	3,375	DMB service	4 years and 9 months
Customer relationships	156,814	Customer relationships related to acquisition of SK Broadband Co., Ltd.	2 years

(note a) The Company purchased the W-CDMA license from KCC 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 a WiBro license from KCC on March 30, 2005. The license period is for 7 years from the purchase date. 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.

13. BORROWINGS AND BONDS PAYABLE

a. Short-term borrowings

Short-term borrowings as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won, thousands of U.S. dollars):

	Lender	rate (%)	September 30, 2011	September 31, 2010
Short-term borrowing (Korean won)	Hana Bank, etc.	4.49 ~ 6.87	(Won) 386,235	(Won) 328,710
Short-term borrowing (Foreign currency)	SK China		269,516	
	Company .Ltd		(US$ 228,500)	
CP	Shinhan Bank, etc.	3.83 ~ 3.85	520,000	195,000
Total			(Won) 1,175,751	(Won) 523,710

b. Long-term borrowings

Long-term borrowings as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won, thousands of U.S. dollars, thousands of Chinese yuan and thousands of Japanese yen):

Lender	Maturity	Annual interest rate (%) (note b)	September 30, 2011		December 31, 2010	
Korea Development Bank (note a)	2011	91 days CD yield + 1.02	(Won)		(Won)	100,000
Citibank (note a)	2011	91 days CD yield + 1.20	(Won)		(Won)	100,000
Nonghyup (note a)	2011	91 days CD yield + 1.30	(Won)		(Won)	100,000
Hana Bank (note a)	2011	91 days CD yield + 1.50	(Won)		(Won)	150,000
Nonghyup (note a)	2011	91 days CD yield + 1.50	(Won)		(Won)	50,000
Korea Development Bank	2011	3.22	(Won)		(Won)	3,251
Kookmin Bank	2012	4.02	(Won)	2,965	(Won)	5,930
Korea Development Bank	2013	4.02	(Won)	6,170	(Won)	8,814
Korea Development Bank	2014	4.02	(Won)	9,061	(Won)	9,885
Shinhan Bank	2015	4.02	(Won)	10,273	(Won)	10,273
Kookmin Bank	2016	4.02	(Won)	9,749	(Won)	
Credit Agricole	2013	6M Libor + 0.29	US$	30,000	US$	30,000
Bank of China			US$	20,000	US$	20,000
DBS Bank			US$	25,000	US$	25,000
SMBC			US$	25,000	US$	25,000
China Merchants Bank	2018	5.35	CNY	360,000	CNY	360,000
Korea Exchange Bank	2015	5.18 ~ 5.44	CNY	200,000	CNY	200,000
Hana Bank HK	2014	3M Libor + 3.2	US$	75,000	US$	
Total			(Won)	38,218	(Won)	538,153
			US$	175,000	US$	100,000
			CNY	560,000	CNY	560,000
Equivalent in Korean won			(Won)	348,225	(Won)	748,346
Less portion due within one year				(10,641)		(512,378)

Long-term portion	(Won) 337,584	(Won) 235,968

(note a) Borrowings were repaid during the third quarter of 2011.

(note b) As of September 30, 2011, 3-month Libor rate is 0.37% and the 6-month Libor rate is 0.56%.

c. Bonds payable

Bonds payable as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won, thousands of U.S. dollars and thousands of Japanese yen):

	Maturity	Annual Interest rate (%)	September 30, 2011	December 31, 2010
Domestic general bonds	2011	3.0	(Won) 200,000	(Won) 200,000
	2013	4.0 ~ 6.92	450,000	450,000
	2014	5.0	200,000	200,000
	2015	5.0	200,000	200,000
	2016	5.0 ~ 5.92	470,000	470,000
	2018	5.0	200,000	200,000
Unsecured public bonds	2011	9.08		25,000
(note b)	2014	4.86	50,000	
Debentures (note c)	2011	6.65 ~ 9.20		315,718
(note c)	2013	3.99	150,000	150,000
(note c)	2014	4.40 ~ 4.53	390,000	
Dollar denominated bonds (US$300,000)	2011	4.25		341,670
Dollar denominated bonds (US$500,000) (note d)	2012	7.0	592,142	596,951
Dollar denominated bonds (US$400,000)	2027	6.63	471,800	455,560
Yen denominated bonds (JPY 15,500,000) (note a)	2012	3 M Euro Yen LIBOR+0.55 ~ 2.5	238,175	216,547
Yen denominated bonds (JPY 5,000,000) (note a)	2012	3 M Euro Yen TIBOR+2.5	76,830	69,854
Floating rate notes (US$ 220,000) (note a)	2012	3 M LIBOR+3.15	259,490	250,558
Convertible bonds (US$ 332,528) (note e and f)	2014	1.75	409,278	461,655
Sub total			4,357,715	4,603,513
Less discounts on bonds			(37,647)	(70,530)
Net			4,320,068	4,532,983
Less portion due within one year			(1,581,777)	(874,437)
Long-term portion			(Won) 2,738,291	(Won) 3,658,546

(note a) The 3-months Euro Yen LIBOR rate, the 3-months Euro Yen TIBOR rate and the 3-month LIBOR rate as of September 30, 2011 are 0.19%, 0.33% and 0.37%, respectively.

(note b) SK Telink Co., Ltd., a subsidiary of the Company, issued unsecured public bonds.

(note c) 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 or (Won)10 trillion of its net assets in any given fiscal year.

(note d) 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 global bond (US$ 500,000 thousand) is downgraded by S&P or Moody s, SK Broadband Co., Ltd. is required to offer a buy-back of all 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 e) 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.

99

(note f) 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 conversion price of (Won)230,010 per share of the Company s common stock, which was greater than market value at the date of issuance. 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 September 30, 2011 is 2,177,389 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, the conversion price has changed from (Won)220,000 to (Won)211,271 and the number of common shares that can be converted changed from 2,090,996 shares to 2,177,389 shares due to the payment of periodic dividends. During the nine months ended September 30, 2011, no conversion was made.

14. PROVISIONS

Details of change in the provisions for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended September 30, 2011				As of September 30, 2011	
	Beginning balance	Increase	Decrease	Ending balance	Current	Non-current
Provision for handset subsidy	(Won) 732,042	(Won) 668,248	((Won) 638,970)	(Won) 761,320	(Won) 646,507	(Won) 114,813
Provision for point program	353	389	(261)	481	158	323
Provision for restoration	32,522	3,551	(3,275)	32,798		32,798
Provision for warranty	140	19		159		159
Provision for sales return	48	55	(40)	63	63	
Other provisions	11	50	(32)	29	29	
Total	(Won) 765,116	(Won) 672,312	((Won) 642,578)	(Won) 794,850	(Won) 646,757	(Won) 148,093

	For the nine months ended September 30, 2010				As of September 30, 2010	
	Beginning balance	Increase	Decrease	Ending balance	Current	Non-current
Provision for handset subsidy	(Won) 609,733	(Won) 738,829	((Won) 606,098)	(Won) 742,464	(Won) 664,231	(Won) 78,233
Provision for point program	894	333	(138)	1,089	326	763
Provision for restoration	26,473	4,820		31,293		31,293
Provision for warranty	93	36		129		129
Provision for sales return	40		(9)	31	31	
Other provisions	22		(10)	12	12	
Total	(Won) 637,255	(Won) 744,018	((Won) 606,255)	(Won) 775,018	(Won) 664,600	(Won) 110,418

The Company provides provision for handset subsidies to be provided to the subscribers who purchase handsets on an installment basis.

15. RETIREMENT BENEFIT OBLIGATION

a. Details of retirement benefit obligation as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Present value of defined benefit obligation	(Won) 189,673	(Won) 160,363
Fair value of plan assets	(85,924)	(92,493)
Total	(Won) 103,749	(Won) 67,870

b. Principal actuarial assumptions as of September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011	December 31, 2010
Discount rate for defined benefit obligations	3.89 ~ 6.64%	5.41 ~ 6.30%
Inflation rate	3.00%	3.00%
Expected rate of return on plan assets	4.00 ~ 5.88%	4.00 ~ 5.64%
Expected rate of salary increase	5.00 ~ 8.15%	4.36 ~ 8.42%

c. Changes in defined benefit obligations for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended	
	September 30, 2011	September 30, 2010
Beginning balance	(Won) 160,363	(Won) 127,255
Current service cost	48,345	68,349
Interest cost	6,750	6,088
Actuarial gain or loss	8,210	(1,620)
Benefit paid	(33,642)	(52,742)
Others	(58)	725
Classified as held for sale	(295)	
Ending balance	(Won) 189,673	(Won) 148,055

d. Changes in plan assets for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended	
	September 30, 2011	September 30, 2010
Beginning balance	(Won) 92,493	(Won) 73,596
Expected return on plan assets	3,050	2,400
Actuarial gain or loss	(978)	(1,125)
Contributions by employer directly to plan assets	2,200	4,002
Benefit payment	(10,872)	(9,117)
Others	31	458
Ending balance	(Won) 85,924	(Won) 70,214

e. Expenses recognized in profit and loss for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended	
	September 30, 2011	September 30, 2010
Current service cost	(Won) 48,345	(Won) 68,349
Interest cost	6,750	6,088
Expected return on plan assets	(3,050)	(2,400)
Total	(Won) 52,045	(Won) 72,037

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 September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Equity instruments	(Won) 798	(Won) 26,247
Debt instruments	53,760	51,489
Others	31,366	14,757
Total	(Won) 85,924	(Won) 92,493

Actual return on plan assets for the nine months ended September 30, 2011 and 2010 is (Won)2,072 million and (Won)1,274 million, respectively.

16. SHARE CAPITAL AND SHARE PREMIUM

The Company s outstanding share capital consists entirely of common stock with a par value of (Won)500. The number of authorized, issued and outstanding common shares and share premium as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won, except for share data):

	September 30, 2011		December 31, 2010	
Authorized shares		220,000,000		220,000,000
Issued shares (Note)		80,745,711		80,745,711
Share capital				
Common stock	(Won)	44,639	(Won)	44,639
Share premium:				
Paid-in surplus	(Won)	2,915,887	(Won)	2,915,887
Treasury stock		(2,410,451)		(2,202,439)
Loss on disposal of treasury stock		(15,875)		(15,875)
Others		(770,658)		(776,526)
Total	((Won)	281,097)	((Won)	78,953)

There are no changes in share capital for the nine months ended September 30, 2011 and for the year ended December 31, 2010.

(Note) During the year ended December 31, 2003, 2006 and 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 (Won)1,992,083 million for providing stock dividends, to purchase odd-lot stocks remaining from new stocks issuance, merger with Shinsegi Telecom, Inc. and SK IMT Co., Ltd., increase shareholder value, and for stock price stabilization purpose.

Meanwhile from July 26, 2010 through October 20, 2010, the Company additionally acquired 1,250,000 shares of treasury stock for (Won)210,356 million and from July 21, 2011 through September 28, 2011, the Company additionally acquired 1,400,000 shares of treasury stock for (Won)208,012 million for in accordance with a 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 September 30, 2011 and December 31, 2010, the Company has 11,050,712 shares of treasury stock at (Won)2,410,451 million and 9,650,712 shares of treasury stock at (Won)2,202,439 million, respectively.

18. RETAINED EARNINGS

Retained earnings as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Appropriated:		
Legal reserve	(Won) 22,320	(Won) 22,320
Reserve for research and manpower development	535,595	658,928
Reserve for business expansion	8,009,138	7,519,138
Reserve for technology development	1,524,000	1,150,000
Sub-total	10,091,053	9,350,386
Unappropriated	1,351,198	1,370,863
Total	(Won) 11,442,251	(Won) 10,721,249

a. Legal Reserve

The Korean Commercial Code 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.

b. Reserve for research and manpower development

Reserve for research and manpower development 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.

19. RESERVES

Details of reserves as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Net change in fair value of available-for-sale financial assets	(Won) 416,329	(Won) 793,645
Share of other comprehensive income of associates	(86,493)	(91,413)
Loss on valuation of derivatives	(74,127)	(56,862)
Foreign currency translations of foreign operations	28,844	(2,314)
Total	(Won) 284,553	(Won) 643,056

Details of change in reserves for the nine months ended September 30, 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	(Won) 998,527	((Won) 91,244)	(Won) 12,552	(Won)	(Won) 919,835
Changes	(45,138)	2,168	(10,777)	(4,793)	(58,541)
Tax effect	4,395		1,415		5,811
Balance, September 30, 2010	(Won) 957,784	((Won) 89,076)	(Won) 3,190	((Won) 4,793)	(Won) 867,105
Balance, January 1, 2011	(Won) 793,645	((Won) 91,413)	((Won) 56,862)	((Won) 2,314)	(Won) 643,056
Changes	(487,932)	6,202	(20,955)	31,158	(471,527)
Tax effect	110,616	(1,282)	3,690		113,024
Balance, September 30, 2011	(Won) 416,329	((Won) 86,493)	((Won) 74,127)	(Won) 28,844	(Won) 284,553

Details of change in fair value of available-for-sale financial assets for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended					
	September 30, 2011			September 30, 2010		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Beginning balance	(Won) 1,023,458	((Won) 229,813)	(Won) 793,645	(Won) 1,284,221	((Won) 285,694)	(Won) 998,527
Recognized in other comprehensive income during the period	(349,914)	77,925	(271,989)	(43,381)	4,009	(39,372)
Reclassified from equity to profit or loss for the period	(138,018)	32,691	(105,327)	(1,758)	387	(1,371)
Ending balance	(Won) 535,526	((Won) 119,197)	(Won) 416,329	(Won) 1,239,082	((Won) 281,298)	(Won) 957,784

106

20. OTHER OPERATING INCOME AND EXPENSES

Details of other operating income and expenses for the three months and nine months ended September 30, 2011 and 2010 are as follows (In millions of Korean won):

	2011		2010	
	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30
Other operating income:				
Reversal of allowance for doubtful accounts (Note)	(Won) 41	(Won) 1,737	(Won) 259	(Won) 259
Gain on disposal of property and equipment and intangible assets (Note)	1,366	5,296	1,000	9,876
Other (Note)	44,826	58,818	7,766	15,989
	(Won) 46,233	(Won) 65,851	(Won) 9,025	(Won) 26,124
Other operating expenses:				
Communication expenses	(Won) 14,384	(Won) 41,572	(Won) 15,761	(Won) 46,014
Utilities	47,309	124,921	45,496	121,040
Taxes and dues	18,590	38,430	26,430	42,742
Repair	62,808	185,718	55,376	159,911
Research and development	67,776	185,864	64,784	182,288
Training	9,346	21,042	8,354	17,740
Bad debt	15,753	51,789	19,226	56,627
Travels	7,889	22,825	7,070	19,392
Supplies and other	24,902	79,503	28,192	68,350
Loss on disposal of property and equipment and intangible assets (Note)	7,247	17,355	30,421	39,845
Loss on disposal of investment assets (Note)		248		2,028
Loss on impairment of intangible assets (Note)		1,559		204
Donations (Note)	15,796	61,175	19,090	96,805
Other bad debt (Note)	1,615	4,761	3,230	5,088
Other (Note)	8,827	18,318	3,090	15,246
	(Won) 302,242	(Won) 855,080	(Won) 326,520	(Won) 873,320

(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.

107

21. FINANCE INCOME AND COSTS

Details of finance income and costs for the three months and nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	2011		2010	
	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30
Finance income:				
Interest income	(Won) 42,435	(Won) 132,956	(Won) 64,062	(Won) 187,969
Dividends	5,912	26,882	6,495	26,736
Gain on foreign currency transactions	2,461	5,410	2,695	6,858
Gain on foreign currency translation		3,505	15,267	16,829
Gain on valuation of financial asset at FVTPL		1,067		
Gain on disposal of long-term investment securities	2,290	162,667	13,187	28,702
Reversal of loss on impairment of investment securities				39
Gain on valuation of derivatives	1,558	3,645	391	1,906
Gain on transactions of derivatives			1,255	1,255
Gain on valuation of financial liability at FVTPL	19,127	52,377		
	73,783	388,509	103,352	270,294
Finance costs:				
Interest expenses	73,070	224,936	97,375	297,484
Loss on foreign currency transactions	3,697	7,350	3,366	8,602
Loss on foreign currency translation	22,998	12,832		1,888
Loss on valuation of short-term investment securities			405	6,404
Loss on disposal of long-term investment securities	300	457	2,029	2,030
Loss on valuation of derivatives	292	689		20,806
Loss on transactions of derivatives		5,136		
Loss on disposal of accounts receivable				6
Loss on valuation of financial liability at FVTPL			7,596	9,287
	(Won) 100,357	(Won) 251,400	(Won) 110,771	(Won) 346,507

Details of interest income included in finance income for the three months and nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	2011		2010	
	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30
	(Won) 18,438	(Won) 41,550	(Won) 7,137	(Won) 24,359

Interest income on cash equivalents and deposits				
Interest income on installment receivables and other interest income	23,997	91,406	56,925	163,610
	(Won) 42,435	(Won) 132,956	(Won) 64,602	(Won) 187,969

108

Details of interest expenses included in finance costs for the three months and nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	2011		2010	
	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30
Interest expense on bank overdrafts and borrowings	(Won) 15,813	(Won) 48,156	(Won) 21,765	(Won) 67,781
Interest on bonds	50,536	157,106	66,101	200,979
Other interest expenses	6,721	19,674	9,509	28,724
	(Won) 73,070	(Won) 224,936	(Won) 97,375	(Won) 297,484

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 three months and nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	2011				2010			
	Financial income		Financial costs		Financial income		Financial costs	
	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30
Financial assets:								
Financial assets designated as at FVTPL	(Won)	(Won) 1,067	(Won)	(Won)	(Won) 1,255	(Won) 1,255	(Won) 405	(Won) 23,932
Available-for-sale financial assets	9,969	195,361	300	457	21,009	60,486	2,029	2,030
Loans and receivables	43,129	136,021	5,130	11,284	74,851	191,274	2,243	10,493
Sub-total	53,098	332,449	5,430	11,741	97,115	253,015	4,677	36,455
Financial liabilities:								
Financial liabilities designated as at FVTPL	20,685	56,022	292	689	391	1,906	7,337	12,566
Financial liabilities at amortized cost		38	94,635	233,835	5,846	15,373	98,757	297,486
Derivatives designated as hedging instruments				5,136				
Sub-total	20,685	56,060	94,927	239,660	6,237	17,279	106,094	310,052

Total	(Won) 73,783	(Won) 388,509	(Won) 100,357	(Won) 251,401	(Won) 103,352	(Won) 270,294	(Won) 110,771	(Won) 346,507

Details of impairment losses for each class of financial assets for the three months and nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	2011		2010	
	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30
Impairment loss on available-for-sale financial assets	(Won)	(Won) 1	(Won) 3	(Won) 3
Bad debt	15,753	51,789	19,226	56,627
Other bad debt	1,615	4,761	3,230	5,088
	(Won) 17,368	(Won) 56,551	(Won) 22,459	(Won) 61,718

109

22. NET INCOME PER SHARE

Net income from continuing operation per share and net income per share for the three months and nine months ended September 30, 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 three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income from continuing operation attributable to the owners of the Company	(Won) 384,298	(Won) 489,659	(Won) 1,395,761	(Won) 1,323,381
Weighted average number of common shares outstanding	70,499,159	71,965,408	70,894,202	72,217,080
Net income per share (in Korean won)	(Won) 5,451	(Won) 6,804	(Won) 19,688	(Won) 18,325

Net income per share from continuing operation for the three months ended March 31, 2011 and 2010 is (Won)7,640 and (Won)5,193, respectively. In addition, net income per share from continuing operation for the three months ended June 30, 2011 and 2010 is (Won)6,596 and (Won)6,333, respectively.

Net income from continuing operation attributable to the controlling interests for the three months and nine months ended September 30, 2011 and 2010 are computed as follows (in millions of Korean won):

	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income attributable to the controlling interests	(Won) 386,166	(Won) 489,023	(Won) 1,396,494	(Won) 1,322,265
The controlling interests portion of net loss (income) from discontinued operation attributable to the controlling interests	(1,868)	636	(733)	1,116
Net income from continuing operation attributable to the controlling interests	(Won) 384,298	(Won) 489,659	(Won) 1,395,761	(Won) 1,323,381

Net income per share

	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income attributable to the owners of the Company	(Won) 386,166	(Won) 489,023	(Won) 1,396,494	(Won) 1,322,265
	70,499,159	71,965,408	70,894,202	72,217,080

Weighted average number of common shares outstanding								
Net income per share (in Korean won)	(Won)	5,478	(Won)	6,795	(Won)	19,698	(Won)	18,310

Net income per share for the three months ended March 31, 2011 and 2010 is (Won)7,631 and (Won)5,192, respectively. In addition, net income per share for the three months ended June 30, 2011 and 2010 is (Won)6,580 and (Won)6,326, respectively.

The weighted average number of common shares outstanding for the three months and nine months ended September 30, 2011 and 2010 are calculated as follows:

2011

	Number of shares	Weighted number of days	Weighted number of shares
For the three months ended September 30, 2011			
Outstanding common stocks at April 1, 2011	80,745,711	92 / 92	80,745,711
Treasury stocks at July 1, 2011	(9,650,712)	92 / 92	(9,650,712)
Acquisition of treasury stock	(1,400,000)	39 / 92 (Note)	(595,840)
Total	69,694,999		70,499,159
For the nine months ended September 30, 2011			
Outstanding common stocks at January 1, 2011	80,745,711	273 / 273	80,745,711
Treasury stocks at January 1, 2011	(9,650,712)	273 / 273	(9,650,712)
Acquisition of treasury stock	(1,400,000)	39 / 273 (Note)	(200,797)
Total	69,694,999		70,894,202

2010

	Number of Shares	Weighted number of days	Weighted number of shares
For the three months ended September 30, 2010			
Outstanding common stocks at April 1, 2010	80,745,711	92 / 92	80,745,711
Treasury stocks at July 1, 2010	(8,400,712)	92 / 92	(8,400,712)
Acquisition of treasury stock	(940,074)	37 / 92 (Note)	(379,591)
Total	71,404,925		71,965,408
For the nine months ended September 30, 2010			
Outstanding common stocks at January 1, 2010	80,745,711	273 / 273	80,745,711
Treasury stocks at January 1, 2010	(8,400,712)	273 / 273	(8,400,712)
Acquisition of treasury stock	(940,074)	37 / 273 (Note)	(127,919)
Total	71,404,925		72,217,080

(Note) The Company acquired treasury stocks on many different dates, and weighted number of shares was calculated considering each transaction date.

111

Diluted net income from continuing operation per share and diluted net income per share amounts for the three months and nine months ended September 30, 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 three months ended				For the six months ended			
	June 30, 2011		June 30, 2010		June 30, 2011		June 30, 2010	
Adjusted net income from continuing operation attributable to the owners of the Company	(Won)	385,708	(Won)	491,119	(Won)	1,399,304	(Won)	1,327,304
Adjusted weighted average number of common shares outstanding		72,676,548		74,056,404		73,071,591		74,308,076
Diluted net income per share (in Korean won)	(Won)	5,307	(Won)	6,632	(Won)	19,150	(Won)	17,862

Diluted net income per share from continuing operation for the three months ended March 31, 2011 and 2010 is (Won)7,426 and (Won)5,068, respectively. In addition, diluted net income per share from continuing operation for the three months ended June 30, 2011 and 2010 is (Won)6,415 and (Won)6,170, respectively.

Diluted net income from continuing operation attributable to the controlling interests for the three months and nine months ended September 30, 2011 and 2010 are computed as follows (in millions of Korean won):

	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income attributable to the controlling interests	(Won) 387,576	(Won) 490,483	(Won) 1,400,037	(Won) 1,326,188
The controlling interests portion of net loss (income) from discontinued operation attributable to the controlling interests	(1,868)	636	(733)	1,116
Net income from continuing operation attributable to the controlling interests	(Won) 385,708	(Won) 491,119	(Won) 1,399,304	(Won) 1,327,304

Diluted net income per share

	For the three months ended				For the six months ended			
	June 30, 2011		June 30, 2010		June 30, 2011		June 30, 2010	
Adjusted net income to the owners of the Company	(Won)	387,576	(Won)	490,483	(Won)	1,400,037	(Won)	1,326,188
		72,676,548		74,056,404		73,071,591		74,308,076

Adjusted weighted average number of common shares outstanding								
Diluted net income per share (in Korean won)	(Won)	5,333	(Won)	6,623	(Won)	19,160	(Won)	17,847

Diluted net income per share for the three months ended March 31, 2011 and 2010 is (Won)7,418 and (Won)5,066, respectively. In addition, diluted net income from continuing operation per share for the three months ended June 30, 2011 and 2010 is (Won)6,400 and (Won)6,163, respectively.

Adjusted net income per share and the adjusted weighted average number of common shares outstanding for the three months and nine months ended September 30, 2011 and 2010 are calculated as follows (In millions of Korean won, except for share data):

	For the three months ended		For the six months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income and ordinary income	(Won) 386,166	(Won) 489,023	(Won) 1,396,494	(Won) 1,322,265
Effect of convertible bonds (Note)	1,410	1,460	3,543	3,923
Adjusted net income and ordinary income	(Won) 387,576	(Won) 490,483	(Won) 1,400,037	(Won) 1,326,188
Weighted average number of common shares outstanding	70,499,159	71,965,408	70,894,202	72,217,080
Effect of exchangeable bonds (Note)	2,177,389	2,090,996	2,177,389	2,090,996
Adjusted weighted average number of common shares outstanding	72,676,548	74,056,404	73,071,591	74,308,076

(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 three months and nine months ended September 30, 2011 and 2010 are computed as follows (in millions of Korean won):

	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income and diluted net income per share	(Won) 26	((Won) 9)	(Won) 10	((Won) 15)

113

23. SEGMENT INFORMATION

The Company has two operating segments; cellular telephone communication services, fixed-line telecommunication services and any other businesses which could not be identified as either segment, were grouped into other. Cellular telephone communication 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. Lastly, the Company s Internet portal services and game manufacturing and others are grouped under other.

Details of the two segments and other for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended September 30, 2011					
	Cellular telephone telecommunication service	Fixed-line Telecommunication service	Other	Sub-total	Internal transaction adjustments	Consolidated amount
Total sales	(Won) 10,641,117	(Won) 2,114,212	(Won) 471,331	(Won) 13,226,660	((Won) 1,212,045)	(Won) 12,014,615
Internal sales	632,182	474,721	105,142	1,212,045	(1,212,045)	
External sales	10,008,935	1,639,491	366,189	12,014,615		12,014,615
Operating income	1,735,590	37,473	32,450	1,805,513		1,805,513
Net income (loss)	1,391,796	(21,894)	16,688	1,386,591		1,386,591
Total assets	19,861,710	3,506,938	1,990,601	25,359,249	(2,216,337)	23,142,912
Total liabilities	7,916,652	2,202,254	691,612	10,810,518	(241,463)	10,569,055

	For the nine months ended September 30, 2010					
	Cellular telephone telecommunication service	Fixed-line Telecommunication service	Other	Sub-total	internal transaction adjustments	Consolidated amount
Total sales	(Won) 10,002,727	(Won) 2,005,393	(Won) 393,128	(Won) 12,401,248	((Won) 825,252)	(Won) 11,575,996
Internal sales	404,212	331,520	89,520	825,252	(825,252)	
External sales	9,598,515	1,673,873	303,608	11,575,996		11,575,996
Operating income (loss)	1,786,925	(48,701)	29,154	1,767,378		1,767,378
Net income (loss)	1,349,907	(116,321)	30,782	1,264,368		1,264,368
Total assets	20,416,908	3,637,929	1,496,944	25,551,781	(2,025,341)	23,526,440
Total liabilities	8,866,658	2,305,082	314,742	11,486,482	(194,092)	11,292,390

The Company mainly operates in the domestic market, and as such no separate geographic segment information analysis is available.

24. TRANSACTIONS WITH RELATED PARTIES

Significant related party transactions for the three months and nine months ended September 30, 2011 and 2010, and account balances as of September 30, 2011 and December 31, 2010 are as follows (In millions of Korean won):

a. Transactions

	For three months ended September 30, 2011			For nine months ended September 30, 2011		
	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.	(Won) 74,280	(Won) 80,288	(Won) 4,205	(Won) 163,106	(Won) 227,807	(Won) 12,359
Parent Company:						
SK Holdings Co., Ltd.		4,886	256		23,255	639
Associates:						
SK Marketing & Company Co., Ltd.	4,455	42,274	1,730	6,663	107,972	6,902
F&U Credit Information Co., Ltd.		12,205	415		33,788	1,262
SK Wyverns Baseball Club Co., Ltd.		4,918	4		15,912	17
HanaSK Card Co., Ltd.	3	86,195	28,693	13	210,192	62,866
Others	76	2,680	215	105	6,151	660
Others :						
SK innovation Co., Ltd.		185	1,445		577	2,950
SK MNS Co., Ltd.	42	4,949	1,592	47	12,318	3,053
SK Engineering & Construction Co., Ltd.	89,106	11,607	2,182	153,397	25,803	4,431
SKC Co., Ltd.		26	345		26	1,028
SK Telesys Co., Ltd.	51,608	14,172	286	149,078	27,882	838
SK Mobile energy Co., Ltd.	98		5	659		8
SK Networks Co., Ltd.	2,016	278,026	2,299	5,390	866,567	10,471
MRO Korea Co., Ltd.	2,782	1,486	6	5,541	4,430	22
SK Networks Service Co., Ltd.	578	17,800	105	1,170	54,360	296
SK Shipping Co., Ltd.			824			2,435
Others	8,535	26,671	4,618	9,234	51,704	6,626
Total	(Won) 233,579	(Won) 588,368	(Won) 49,225	(Won) 494,403	(Won) 1,668,744	(Won) 116,863

115

	For three months ended September 30, 2010			For nine months ended September 30, 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.	(Won) 65,163	(Won) 81,151	(Won) 4,214	(Won) 106,293	(Won) 221,529	(Won) 9,990
Parent Company:						
SK Holdings Co., Ltd.	49	7,351	335	118	22,028	789
Associates:						
SK Marketing & Company Co., Ltd.	1,289	45,378	1,329	3,314	133,931	4,565
F&U Credit Information Co., Ltd.		17,652	1,132		29,939	1,315
SK Wyverns Baseball Club Co., Ltd.		4,500	11		12,900	39
HanaSK Card Co., Ltd.		15,970	5		15,970	8
Others		1,363	267		7,527	777
Others :						
SK innovation Co., Ltd.		263	1,938		763	4,583
SK MNS Co., Ltd.	9	5,509	76	649	10,759	233
SK Engineering & Construction Co., Ltd.	103,641	7,845	1,654	139,206	8,986	10,403
SKC Co., Ltd.		26	246		26	659
SK Telesys Co., Ltd.	93,303	8,955	231	184,601	22,655	1,144
SK Mobile energy Co., Ltd.	398		4	1,482		14
SK Networks Co., Ltd.	2,793	303,075	5,892	3,319	821,728	21,087
MRO Korea Co., Ltd.	694	1,653	102	4,852	3,538	129
SK Networks Service Co., Ltd.	95	16,183		459	37,117	169
SK Shipping Co., Ltd.			844			2,940
Others	12,751	41,289	1,853	12,751	42,820	3,651
Total	(Won) 280,185	(Won) 558,163	(Won) 20,133	(Won) 457,044	(Won) 1,392,216	(Won) 62,495

b. Account balances

	As of September 30, 2011			
	Accounts Receivable and loans	Guarantee deposits	Accounts payable	Guarantee deposits received
Ultimate parent company:				
SK C&C Co., Ltd.	(Won) 2,852	(Won)	(Won) 95,738	(Won) 3,585
Parent Company:				
SK Holdings Co., Ltd.	194			
Associates:				
SK Marketing & Company Co., Ltd.	7,377		28,623	10
F&U Credit Information Co., Ltd.	23		3,764	
Wave City Development Co., Ltd.	38,412			
Daehan Kanggun BcN Co., Ltd.	14,786			
HanaSK Card Co., Ltd.	6,747		944	
SK China Company, Ltd.			269,516	
Others	2,406		1,089	
Others :				
SK innovation Co., Ltd.	889	91	27	
SK MNS Co., Ltd.	993		2,986	
SK Engineering & Construction Co., Ltd.	1,925		5,689	83
SKC Co., Ltd.	258			
SK Telesys Co., Ltd.	499		33,205	
SK Mobile energy Co., Ltd.	5			
SK Networks Co., Ltd.	16,366	5,513	152,627	896
MRO Korea Co., Ltd.	1		2,552	
SK Networks Service Co., Ltd.	13		7,260	
SK Pinx Co., Ltd.			7	
SK Shipping Co., Ltd.	353			
Others	1,239		8,267	47
Total	(Won) 95,338	(Won) 5,604	(Won) 612,294	(Won) 4,621

117

	As of December 31, 2010			
	Accounts receivable and loans	Guarantee deposits	Accounts payable	Guarantee deposits received
Ultimate parent company:				
SK C&C Co., Ltd.	(Won) 935	(Won)	(Won) 203,031	(Won) 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	
Wave City Development Co., Ltd.	38,412			
Daehan Kanggun BcN Co., Ltd.	30,224			
HanaSK Card Co., Ltd.	8,478		19,948	
Others	2,415		1,826	
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	(Won) 117,340	(Won) 5,609	(Won) 494,757	(Won) 4,637

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 three months and nine months ended September 30, 2011 and 2010 are as follows (In millions of Korean won):

	For the three months ended September 30, 2011			For the nine months ended September 30, 2011		
Payee	Payroll	Severance indemnities	Total	Payroll	Severance indemnities	Total
Eight (8) Registered directors (including outside directors)	(Won) 399	(Won) 107	(Won) 506	(Won) 9,230	(Won) 731	(Won) 9,961

	For the three months ended September 30, 2010			For the nine months ended September 30, 2010		
Payee	Payroll	Severance indemnities	Total	Payroll	Severance indemnities	Total
Eight (8) Registered directors (including outside directors)	(Won) 358	(Won) 75	(Won) 433	(Won) 2,651	(Won) 518	(Won) 3,169

118

25. COMMITMENTS AND CONTINGENCIES

a. SK Broadband Co., Ltd., a subsidiary, provides its time deposits up to (Won)20,000 million as collateral for members of the Employee Stock Purchase Association (ESPA) in order for employees to borrow money and contribute to the ESPA; such contribution are used to purchase the shares of SK Broadband Co., Ltd. in the market. As of September 30, 2011, SK Broadband Co., Ltd. has pledged (Won)4,700 million of time deposits.

b. As of September 30, 2011, SK Telink Co., Ltd., a subsidiary, pledged as collateral for borrowings (Won)41,900 million (book value of(Won)31,600 million) of machinery.

c. For the nine months ended June 30, 2011, PS & Marketing Corporation, a subsidiary, borrowed (Won)20,000 million from Shinhan Bank and obtained a line of credit for (Won)20,000 million, for operational purposes. In relation to the borrowings and line of credit, PS & Marketing Corporation pledged (Won)52,000 million of inventory as collateral to Shinhan Bank.

d. As of September 30, 2011, Sky Property Mgmt, Ltd., a subsidiary, pledged CNY800,000,000 of building and land use right (long-term prepaid expenses) as collateral for its long-term borrowing amounting to CNY560,000,000 to Korean Exchange Bank and China Merchants Bank.

26. 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 September 30, 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 (Won)5,971 million (net of tax effect totaling (Won)1,242 million and foreign exchange translation loss arising from U.S. dollar denominated long-term borrowings totaling (Won)23,150 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 September 30, 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 (Won)1,240 million (net of tax effect totaling (Won)1,177 million and foreign exchange translation loss arising from unguaranteed Japanese yen denominated bonds totaling (Won)88,006 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 September 30, 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 (Won)2,325 million (net of tax effect totaling (Won)656 million and foreign exchange translation gain arising from unguaranteed Japanese yen denominated bonds totaling (Won)35 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 September 30, 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 (Won)760 million (net of tax effect totaling (Won)214 million and foreign exchange translation gain arising from unguaranteed Japanese yen denominated bonds totaling (Won)1,786 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 September 30, 2011, in connection with unsettle foreign currency swap contract to which cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to (Won)80,579 million (excluding tax effect totaling (Won)22,727 million and foreign exchange translation gain arising from unguaranteed U.S. dollar denominated bonds totaling (Won)14,042 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 (Won)129,806 million was charged to current operations.

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 September 30, 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 (Won)5,362 million (excluding foreign exchange translation loss arising from U.S. dollar denominated bonds totaling (Won)120,907 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 (Won)46,856 million was charged to current operations.

b. Interest rate swap contract which no hedge accounting is applied

The Company has entered into a floating-to-fixed interest rate swap contract with DBS and Calyon Bank the interest rate risk of floating rate U.S. dollar denominated bonds with face amounts totaling US$220,000,000 issued on April 29, 2009. In connection with unsettled interest rate swap contract to which the hedge accounting is not applied, gain on valuation of currency swap of (Won)3,389 million and loss on valuation of interest swap of (Won)3,279 million for the nine months ended September 30, 2011 and 2010, respectively, are charged to current operations.

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 (Won)689 million and gain on valuation of convertible option of (Won)1,515 million for the nine months ended September 30, 2011 and 2010, respectively, are charged to current operations.

As of September 30, 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, Japanese yen and millions of Korean won):

Type	Hedged item	Amount		Duration of Contract	Fair value: Designated as Cash Flow Hedge	Fair value: Not Designated	Fair value: Total
Current assets:							
Fix-to-fixed cross currency swap	U.S. dollar denominated bonds	US$	500,000	Feb. 1, 2005 ~ Feb. 1, 2012	(Won) 79,412	(Won)	(Won) 79,412
Floating-to-fixed cross currency interest swap	Japanese yen denominated bonds	JPY	3,000,000	Jan. 22, 2009 ~ Jan. 22, 2012	2,946		(Won) 2,946
Non-current assets:							
Floating-to-fixed cross currency swap	U.S. dollar denominated long-term borrowings	US$	100,000	Oct. 10, 2006 ~ Oct. 10, 2013	15,937		15,937
Fix-to-fixed cross currency swap	U.S. dollar denominated bonds	US$	400,000	Jul. 20, 2007 ~ Jul. 20, 2027	40,543		40,543
Floating-to-fixed cross currency swap	Japanese yen denominated bonds	JPY	12,500,000	Nov. 13, 2007 ~ Nov. 13, 2012	88,068		88,068
Convertible Option	Convertible bonds securities	US$	500,000	Sep. 1, 2009 ~ Aug. 31, 2014		1,273	1,273
Total assets					(Won) 226,906	(Won) 1,273	(Won) 228,179
Current liabilities:							
Floating-to-fixed cross currency interest swap	Japanese yen denominated bonds	JPY	5,000,000	Mar. 05, 2009 ~ Mar. 5, 2012	(Won) 811	(Won)	(Won) 811
Floating-to-fixed Interest rate swap	U.S. dollar denominated bonds	US$	220,000	Apr. 29, 2009 ~ Apr.29, 2012		1,654	1,654
Total liabilities					(Won) 811	(Won) 1,654	(Won) 2,465

121

27. CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjustments for income and expenses from operating activities for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Reversal of allowance for doubtful accounts	((Won) 1,737)	((Won) 259)
Gain on disposal of property, equipment and intangible assets	(5,304)	(9,876)
Interest income	(132,986)	(188,002)
Dividend income	(26,882)	(26,736)
Gain on foreign currency translation	(3,505)	(16,829)
Gain on valuation of short-term securities	(1,067)	
Gain on disposal of long term investment securities	(162,667)	(28,702)
Reversal of impairment loss on long term investment securities		(39)
Gain on valuation of derivatives	(3,645)	(1,906)
Gain on valuation of financial liabilities at FVTPL	(52,377)	
Equity in earnings of investments in affiliates	(29,137)	(24,392)
Other income	(4,721)	(2,172)
Provision for retirement benefits	51,055	71,655
Depreciation and amortization	1,895,319	1,715,495
Bad debt expenses	51,789	56,627
Loss on disposal of property, equipment and intangible assets	17,355	39,845
Loss on impairment of intangible assets	1,559	204
Other bad debt expenses	4,761	5,088
Interest expenses	225,111	297,502
Loss on foreign currency translation	12,833	1,888
Loss on valuation of short-term investment securities		6,404
Loss on disposal of long term investment securities	457	2,030
Loss on valuation of derivatives	689	20,806
Loss on transaction of derivatives	5,136	
Loss on valuation of financial liabilities at FVTPL		9,287
Equity in losses of investments in affiliates	51,229	23,820
Income tax expense	530,755	425,092
Other expenses	7,951	21,454
	(Won) 2,431,971	(Won) 2,398,284

122

Changes in assets and liabilities from operating activities for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended September 30, 2011	September 30, 2010
Accounts receivable - trade	((Won) 23,658)	((Won) 64,205)
Accounts receivable - other	1,038,616	(497,094)
Accrued income	16,151	1,053
Advance payments	24,852	(29,440)
Prepaid expenses	(79,473)	(13,365)
Inventories	(70,107)	(58,769)
Other current assets	68,948	50,576
Long-term accounts receivables - other	518,762	(148,799)
Accounts payable -trade	17,947	67,308
Accounts payable -other	(379,504)	(145,254)
Advanced receipts	16,304	46,263
Withholdings	119,331	224,284
Accrued expenses	34,869	165,508
Unearned revenue	(33,586)	(43,487)
Retirement benefit payment	(33,642)	(52,742)
Plan assets	8,672	5,115
Other non-current	(159)	(7,599)
Others	1,899	2,055
	(Won) 1,246,222	((Won) 498,592)

Significant non-cash transactions for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended September 30, 2011	September 30, 2010
Transfer construction in progress to property and equipment	(Won) 1,458,672	(Won) 582,617
Transfer inventories to tangible assets account	59,470	47,312
Accounts payable -other of tangible assets and others	197,190	
Write-off of accounts receivable-trade and others	51,480	46,517
Transfer bonds payable to current portion of long-term debt account	1,401,923	759,478
Transfer long-term borrowings to current portion of long-term debt account	47,644	907,095

123

28. DISCONTINUED OPERATION

The Company determined to dispose its common stock in SK i-media Co., Ltd. a game software production business. 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 expected discontinuance	October 20, 2011
Method of disposal	Disposal of common stock
Purchasing company	LK Media tech Inc.

Income (loss) of discontinued operation for the three months and nine months ended September 30, 2011 and 2010 are as follows (In millions of Korean won). Meanwhile, comparative financial statements for the three months and nine months ended September 30, 2010 were restated and separately present discontinued operation and cash flows relating to discontinued operation.

	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Operating loss generated by discontinued operation	((Won) 699)	((Won) 1,270)	((Won) 2,943)	((Won) 2,290)
Financial income(loss) generated by discontinued operation	(75)	(27)	(145)	14
Income tax for discontinued operation	3,660	314	4,220	551
Income(loss) generated by discontinued operation	(Won) 2,886	((Won) 983)	(Won) 1,132	((Won) 1,725)
Attributable to:				
Controlling interests	(Won) 1,868	((Won) 636)	(Won) 733	((Won) 1,116)
Non-controlling interests	(Won) 1,018	((Won) 347)	(Won) 400	((Won) 609)

Net cash flows related to discontinued operation for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	2011	2010
Cash flows from operating activities	((Won) 1,864)	((Won) 620)
Cash flows from investing activities	206	(1,952)
Cash flows from financing activities	1,600	1,000
Net cash flows	((Won) 58)	((Won) 1,572)

As of September 30, 2011, the related asset and liability of discontinued operation is classified as assets classified as held for sale (See Note 29).

29. ASSETS CLASSIFIED AS HELD FOR SALE

As of September 30, 2011, the book value of the assets and liabilities classified as held for sale are as follows (In millions of Korean won):

		September 30, 2011
Cash and cash equivalents	(Won)	214
Accounts receivable trade		114
Property and equipment / Intangible assets		3,097
Other receivables		490
Total assets classified as held for sale		3,915
Accounts payable other		196
Retirement benefit obligation		295
Other payables		1,602
Total liabilities classified as held for sale		2,093
Net assets classified as held for sale	(Won)	1,822

30. SUBSEQUENT EVENT

a. Split-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 split off platform business segment and established SK Planet Co., Ltd. on October 1, 2011. SK Planet Co., Ltd. was registered on October 5, 2011. General information related to the split-off are summarized as follows:

	Description
Split-off method	Simple physical split-off
Spin-off company	SK Telecom Co., Ltd. (Surviving company)
	SK Planet Co., Ltd. (New spin-off company)
Date of split-off	October 1, 2011

b. 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 agreed to acquire 146,100,000 shares of common stock in Hynix Semiconductor Inc. for approximately (Won)3,426,657 million on February 14, 2012. The Company will acquire the investee s common stock by cash settlement (old and new stock purchase). The Company s ownership for Hynix Semiconductor Inc. will be 21.05%.

125

31. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

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 September 30, 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$	57,841	(Won) 68,223	1,615,506	(Won) 1,905,490
EUR	283	454	2,059	3,297
JPY	117,659	1,808	20,501,467	315,028
CNY			560,000	103,595
Others	4,003	671	538	957
		(Won) 71,156		(Won) 2,328,367

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 26)

Effects of a 10% change in foreign currency to the Company s functional currency on income before income tax as of September 30, 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$	((Won) 66,613)	(Won) 66,613
EUR	(284)	284
JPY	154	(154)
CNY	(10,359)	10,359
Others	(29)	29

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 September 30, 2011, marketable equity securities is (Won)1,112,643 million.

126

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 September 30, 2011, borrowings and bonds payables with floating interest rate is (Won)867,905 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 26).

For the nine months ended September 30, 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 (Won)1,767 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 nine months ended September 30, 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 derivates. 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 September 30, 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 21.

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 September 30, 2011 is as follows (In millions of Korean won):

	Less than 1 year	1-5 years	More than 5 years	Total
Borrowings	(Won) 1,186,392	(Won) 270,987	(Won) 66,597	(Won) 1,523,976
Bonds payable (Note a)	1,583,839	2,102,076	671,800	4,357,715
Derivatives liabilities	2,465			2,465
Trade payables	201,567			201,567
Other payables (Note b)	1,813,147	328,363		2,141,510
Total	(Won) 4,787,410	(Won) 2,701,426	(Won) 738,397	(Won) 8,227,232

(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 consolidated financial statements.

Debt-equity ratio as of September 30, 2011 and December 31, 2010 are as follows (In millions of Korean won):

	September 30, 2011	December 31, 2010
Debt	(Won) 10,569,055	(Won) 10,724,390
Equity	12,573,857	12,407,999
Debt-equity ratio	84.06%	86.43%

128

SK TELECOM CO., LTD.

SEPARATE FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND NINE MONTHS

ENDED SEPTEMBER 30, 2011

AND INDEPENDENT ACCOUNTANTS   REVIEW REPORT

Deloitte Anjin LLC
12Fl., One IFC
23-5 Yoido-dong,
Youngdeungpo-gu, Seoul
150-876, Korea

Tel: +82 (2) 6676 1000

Fax: +82 (2) 6674 2114

www.deloitteanjin.co.kr

Independent Accountants Review Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of

SK Telecom Co., Ltd.

Report on the separate financial statements

We have reviewed the accompanying separate financial statements of SK Telecom Co., Ltd. (the Company). The financial statements consist of the separate statements of financial position as of September 30, 2011 and December 31, 2010, and the related separate statements of income, comprehensive income for the three months and nine months ended September 30, 2011 and changes in shareholders equity and cash flows for the nine months ended September 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management s responsibility for the separate financial statements

The Company s management is responsible for the preparation and fair presentation of the accompanying separate financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent accountants responsibility

Our responsibility is to express a conclusion on the accompanying separate financial statements based on our reviews.

We conducted our reviews in accordance with standards for review of interim financial statements in the Republic of Korea. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying separate financial statements of the Company are not presented fairly, in all material respects, in accordance with Korean International Financial Reporting Standards (K-IFRS) 1034 Interim Financial Reporting , and the requirements of K-IFRS 1101 First-time Adoption of Korean International Financial Reporting Standards , relevant to interim financial reporting.

Other matter

The separate statements of income and comprehensive income for the three months and nine months ended September 30, 2010 and changes in shareholders equity and cash flows for the nine months ended September 30, 2010, comparatively presented herein, were not reviewed.

entity. Please see www.deloitte.com/kr/about for a detailed description of the legal structure of Deloitte

Touche Tohmatsu Limited and its member firms.

Member of Deloitte Touche Tohmatsu Limited

Our reviews also comprehended the translation of the Korean won amounts into U.S. dollar amounts and nothing has come to our attention that causes us to believe that such translation has not been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers of financial statements.

Accounting principles and review standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in shareholders equity 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 review 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 review standards and their application in practice.

November 24, 2011

Notice to Readers

This report is effective as of November 24, 2011, the independent accountants review report date. Certain subsequent events or circumstances may have occurred between the independent accountants review report date and the time the independent accountants review report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modification to the independent accountants review report.

131

SK TELECOM CO., LTD.

SEPARATE STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2011 AND DECEMBER 31, 2010

ASSETS	Notes	Korean won September 30, 2011 (In millions)	Korean won December 31, 2010 (In millions)	Translation into U.S. dollars (Note 2) September 30, 2011 (In thousands)	Translation into U.S. dollars (Note 2) December 31, 2010 (In thousands)
CURRENT ASSETS:					
Cash and cash equivalents	*4*	(Won) 1,396,318	(Won) 357,470	$ 1,182,418	$ 302,710
Short-term financial instruments	*4*	705,500	299,500	597,426	253,620
Short-term investment securities	*4,6*	85,263	393,811	72,202	333,484
Accounts receivable - trade, net	*4,5,23*	1,334,787	1,453,061	1,130,313	1,230,469
Short-term loans, net	*4,5,23*	88,765	80,731	75,167	68,364
Accounts receivable - other, net	*4,5,23*	1,293,249	2,499,969	1,095,138	2,117,003
Prepaid expenses		91,954	156,153	77,868	132,232
Derivative assets	*4,24*	2,946		2,495	
Inventories		15,860	9,019	13,430	7,637
Advanced payments and other	*5,6*	35,800	67,262	30,317	56,959
Total current assets		5,050,442	5,316,976	4,276,774	4,502,478
NON-CURRENT ASSETS:					
Long-term financial instruments	*4*	7,578	69	6,417	58
Long-term investment securities	*4,6*	1,382,761	1,517,029	1,170,938	1,284,638
Investments in subsidiaries and associates	*7*	3,640,521	3,584,395	3,082,836	3,035,308
Property and equipment	*8,23*	5,673,497	5,469,747	4,804,384	4,631,846
Investment property	*9*	39,935	34,799	33,817	29,468
Goodwill	*10*	1,308,422	1,308,422	1,107,987	1,107,987
Intangible assets	*11*	1,611,118	1,424,969	1,364,314	1,206,680
Long-term loans, net	*4,5,23*	72,931	64,098	61,759	54,279
Long-term accounts receivable - other, net	*4,5*	8,322	527,084	7,047	446,341
Long-term prepaid expenses		21,107	1,031	17,874	873
Guarantee deposits	*4,5,23*	155,049	154,360	131,297	130,714
Long-term derivative assets	*4,24*	144,548	139,577	122,405	118,195
Deferred income tax assets		283,174	183,481	239,795	155,374
Other non-current assets		709	1,089	601	923
Total non-current assets		14,349,672	14,410,150	12,151,471	12,202,684
TOTAL ASSETS		(Won) 19,400,114	(Won) 19,727,126	$ 16,428,245	$ 16,705,162

(Continued)

SK TELECOM CO., LTD.

SEPARATE STATEMENTS OF FINANCIAL POSITION (CONTINUED)

SEPTEMBER 30, 2011 AND DECEMBER 31, 2010

LIABILITIES AND STOCKHOLDERS EQUITY	Notes	Korean won September 30, 2011 (In millions)	Korean won December 31, 2010 (In millions)	Translation into U.S. dollars (Note 2) September 30, 2011 (In thousands)	Translation into U.S. dollars (Note 2) December 31, 2010 (In thousands)
CURRENT LIABILITIES:					
Short-term borrowings	*4*	(Won) 500,000	(Won)	$ 423,406	$
Accounts payable - other	*4,23*	1,032,909	1,287,035	874,679	1,089,876
Withholdings		485,284	348,093	410,944	294,769
Accrued expenses	*4*	433,523	452,103	367,112	382,846
Income tax payable		202,740	243,263	171,683	205,998
Unearned revenue		291,684	308,590	247,001	261,318
Derivative liabilities	*4,24*	2,465	15,393	2,087	13,035
Provision	*14*	646,665	652,830	547,604	552,824
Current portion of long-term debt, net	*4,12,13*	1,007,585	1,208,555	853,235	1,023,419
Advanced receipts and other		54,090	45,151	45,805	38,234
Total current liabilities		4,656,945	4,561,013	3,943,556	3,862,319
NON-CURRENT LIABILITIES:					
Bonds payable, net	*4,12*	2,150,524	2,933,813	1,821,089	2,484,387
Long-term borrowings	*4,13*	117,950	113,890	99,881	96,443
Long-term payables - other	*4*	231,731	50,643	196,233	42,885
Long-term unearned revenue		225,585	241,892	191,028	204,837
Retirement benefit obligation	*15*	45,946	21,382	38,908	18,107
Long-term derivative liabilities	*4,24*		14,761		12,500
Long-term provision	*14*	142,710	107,218	120,849	90,793
Long-term advanced receipts and other	*4,14,23*	102,437	101,556	86,744	85,999
Total non-current liabilities		3,016,883	3,585,155	2,554,732	3,035,951
Total Liabilities		7,673,828	8,146,168	6,498,288	6,898,270
STOCKHOLDERS EQUITY:					
Share capital	*1,16*	44,639	44,639	37,801	37,801
Share premium	*16,17*	(233,036)	(24,643)	(197,338)	(20,868)
Retained earnings	*18*	11,574,002	10,824,356	9,801,002	9,166,192
Reserves	*19*	340,681	736,606	288,492	623,767
Total Shareholders Equity		11,726,286	11,580,958	9,929,957	9,806,892
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY		(Won) 19,400,114	(Won) 19,727,126	$ 16,428,245	$ 16,705,162

See accompanying notes to separate financial statements.

133

SK TELECOM CO., LTD.

SEPARATE STATEMENTS OF INCOME

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

		Korean won				Translation into U.S. dollars (Note 2)			
		2011		2010		2011		2010	
	Notes	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
		(In millions except for per share data)				(In thousands except for per share data)			
OPERATING REVENUE:									
Revenue	*23*	(Won) 3,202,287	(Won) 9,521,831	(Won) 3,205,265	(Won) 9,324,277	$ 2,711,734	$ 8,063,198	$ 2,714,256	$ 7,895,907
Other	*20*	9,772	16,270	5,751	15,036	8,275	13,778	4,870	12,733
Sub-total		3,212,059	9,538,101	3,211,016	9,339,313	2,720,009	8,076,976	2,719,126	7,908,640
OPERATING EXPENSES:	*23*								
Labor cost	*15*	133,437	421,254	117,309	446,304	112,996	356,723	99,339	377,935
Commissions paid		1,302,214	3,824,523	1,277,173	3,721,984	1,102,730	3,238,651	1,081,525	3,151,820
Depreciation and amortization	*8,9,11*	454,446	1,298,332	358,158	1,112,240	384,830	1,099,443	303,292	941,858
Network interconnection		247,310	739,085	301,744	832,502	209,425	625,866	255,520	704,972
Leased line		115,899	310,022	85,247	256,489	98,145	262,530	72,188	217,198
Advertising		78,957	173,681	67,204	189,676	66,862	147,075	56,910	160,620
Rent		77,971	231,943	73,588	221,008	66,027	196,412	62,315	187,152
Cost of goods sold		54,225	137,832	25,657	57,595	45,918	116,718	21,727	48,772
Other	20	238,807	663,616	261,215	697,223	202,224	561,958	221,200	590,417
Sub-total		2,703,266	7,800,288	2,567,295	7,535,021	2,289,157	6,605,376	2,174,016	6,380,744

(Continued)

134

SK TELECOM CO., LTD.

SEPARATE STATEMENTS OF INCOME (CONTINUED)

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

		Korean won				Translation into U.S. dollars (Note 2)			
		2011		2010		2011		2010	
	Notes	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
		(In millions except for per share data)				(In thousands except for per share data)			
OPERATING INCOME		(Won) 508,793	(Won) 1,737,813	(Won) 643,721	(Won) 1,804,292	$ 430,852	$ 1,471,600	$ 545,110	$ 1,527,896
Financial income	*21*	63,592	366,015	98,463	255,729	53,850	309,947	83,380	216,554
Financial costs	*21*	72,727	167,834	76,761	248,273	61,586	142,123	65,002	210,240
Gain on disposal of investments in associates			1,990	6,408	6,408		1,684	5,426	5,426
Loss on disposal of investments in associates		1,291	1,291			1,093	1,093		
INCOME BEFORE INCOME TAX		498,367	1,936,693	671,831	1,818,156	422,023	1,640,015	568,914	1,539,636
PROVISION FOR INCOME TAX		109,684	512,952	157,927	429,252	92,882	434,374	133,734	363,496
NET INCOME		(Won) 388,683	(Won) 1,423,741	(Won) 513,904	(Won) 1,388,904	$ 329,141	$ 1,205,641	$ 435,180	$ 1,176,140
NET INCOME PER SHARE									
(In Korean won and U.S. dollars)	*22*	(Won) 5,513	(Won) 20,083	(Won) 7,141	(Won) 19,232	$ 4.67	$ 17.01	$ 6.05	$ 16.29
DILUTED NET INCOME PER SHARE									
(In Korean won and U.S.	*22*	(Won) 5,368	(Won) 19,533	(Won) 6,959	(Won) 18,744	$ 4.55	$ 16.54	$ 5.89	$ 15.87

dollars)

See accompanying notes to separate financial statements.

SK TELECOM CO., LTD.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

		Korean won				Translation into U.S. dollars (Note 2)			
		2011		2010		2011		2010	
	Notes	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
		(In millions except for per share data)				(In thousands except for per share data)			
NET INCOME		(Won) 388,683	(Won) 1,423,741	(Won) 513,904	(Won) 1,388,904	$ 329,141	$ 1,205,641	$ 435,180	$ 1,176,140
OTHER COMPREHENSIVE INCOME :									
Net change in fair value of available-for-sale financial assets	*19*	(199,438)	(380,171)	105,210	(37,296)	(168,886)	(321,933)	89,093	(31,583)
Gain (loss) on valuation of derivatives	*19*	(21,981)	(15,754)	(5,144)	(3,894)	(18,614)	(13,342)	(4,356)	(3,297)
Actuarial gain (loss) on retirement benefit obligations	*15*	(182)	(5,802)	960	(147)	(154)	(4,913)	813	(124)
Sub-total		(221,601)	(401,727)	101,026	(41,337)	(187,654)	(340,188)	85,550	(35,004)
TOTAL COMPREHENSIVE INCOME		(Won) 167,082	(Won) 1,022,014	(Won) 614,930	(Won) 1,347,567	$ 141,487	$ 865,453	$ 520,730	$ 1,141,136

See accompanying notes to separate financial statements.

SK TELECOM CO., LTD.

SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

				Share premium					
	Notes	Share capital	Paid-in surplus	Treasury stock	Loss on disposal of treasury stock	Other	Retained earnings	Reserves	Total
millions of Korean won)									
ance, January 1, 2010		(Won) 44,639	(Won) 2,915,887	((Won) 1,992,083)	((Won) 15,875)	((Won) 726,156)	(Won) 9,560,310	(Won) 998,728	(Won) 10,785,4
n dividends							(680,043)		(680,0
asury stock				(156,088)					(156,0
al other comprehensive me (loss)							1,388,757	(41,190)	1,347,5
income							1,388,904		1,388,9
er comprehensive loss	*19*						(147)	(41,190)	(41,3
er changes						5,607			5,6
ance, September 30, 2010		(Won) 44,639	(Won) 2,915,887	((Won) 2,148,171)	((Won) 15,875)	((Won) 720,549)	(Won) 10,269,024	(Won) 957,538	(Won) 11,302,4
ance, January 1, 2011		(Won) 44,639	(Won) 2,915,887	((Won) 2,202,439)	((Won) 15,875)	((Won) 722,216)	(Won) 10,824,356	(Won) 736,606	(Won) 11,580,9
n dividends							(668,293)		(668,2
asury stock	*17*			(208,012)					(208,0
al other comprehensive me (loss)							1,417,939	(395,925)	1,022,0
income							1,423,741		1,423,7
er comprehensive loss	*19*						(5,802)	(395,925)	(401,7
er changes						(381)			(3
ance, September 30, 2011		(Won) 44,639	(Won) 2,915,887	((Won) 2,410,451)	((Won) 15,875)	((Won) 722,597)	(Won) 11,574,002	(Won) 340,681	(Won) 11,726,2

(Continued)

137

SK TELECOM CO., LTD.

SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

				Share premium					
	Notes	Share capital	Paid-in surplus	Treasury stock	Loss on disposal of treasury stock	Other	Retained earnings	Reserves	Total
(In thousands of U.S dollars)									
Balance, January 1, 2010		$ 37,801	$ 2,469,207	($ 1,686,919)	($ 13,443)	($ 614,917)	$ 8,095,783	$ 845,735	$ 9,133,247
Cash dividends							(575,868)		(575,868)
Treasury stock				(132,177)					(132,177)
Total other comprehensive income (loss)							1,176,016	(34,880)	1,141,136
Net income							1,176,140		1,176,140
Other comprehensive loss	*19*						(124)	(34,880)	(35,004)
Other changes						4,747			4,747
Balance, September 30, 2010		$ 37,801	$ 2,469,207	($ 1,819,096)	($ 13,443)	($ 610,170)	$ 8,695,931	$ 810,855	$ 9,571,085
Balance, January 1, 2011		$ 37,801	$ 2,469,207	($ 1,865,051)	($ 13,443)	($ 611,581)	$ 9,166,192	$ 623,767	$ 9,806,892
Cash dividends							(565,918)		(565,918)
Treasury stock	*17*			(176,147)					(176,147)
Total other comprehensive income (loss)							1,200,728	(335,275)	865,453
Net income							1,205,641		1,205,641
Other comprehensive loss	*19*						(4,913)	(335,275)	(340,188)
Other changes						(323)			(323)
Balance, September 30, 2011		$ 37,801	$ 2,469,207	($ 2,041,198)	($ 13,443)	($ 611,904)	$ 9,801,002	$ 288,492	$ 9,929,957

See accompanying notes to separate financial statements.

138

SK TELECOM CO., LTD.

SEPARATE STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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		(Won) 1,423,741	(Won) 1,388,904	$ 1,205,641	$ 1,176,140
Adjustments for income and expenses	*25*	1,791,310	1,737,301	1,516,902	1,471,167
Changes in assets and liabilities related to operating activities	*25*	1,756,037	(153,684)	1,487,033	(130,141)
Sub-total		4,971,088	2,972,521	4,209,576	2,517,166
Interest received		105,593	158,359	89,417	134,100
Dividends received		33,676	38,981	28,517	33,010
Interest paid		(147,528)	(205,271)	(124,928)	(173,826)
Income tax paid		(537,545)	(648,890)	(455,200)	(549,488)
Net cash provided by operating activities		4,425,284	2,315,700	3,747,382	1,960,962
CASH FLOWS FROM INVESTING ACTIVITIES:					
Cash inflows from investing activities:					
Decrease in short-term investment assets		253,000	280,000	214,243	237,108
Decrease in short-term loans		136,852	163,196	115,888	138,196
Proceeds from sales of long-term investment securities		214,612	402,614	181,736	340,938
Proceeds from disposal of consolidated subsidiary and associates		7,124	44,953	6,033	38,067
Proceeds from disposal of property and equipment		2,294	16,736	1,943	14,172
Proceeds from disposal of intangible assets		2,172	4,194	1,839	3,552
Collection of long-term loans		28,152	72,385	23,839	61,296
Decrease in other non-current assets		386	516	326	438
Sub-total		644,592	984,594	545,847	833,767
Cash outflows for investing activities:					
Increase in short-term financial instruments, net		406,000	69,310	343,806	58,693
Increase in short-term investment assets		141,000		119,400	
Increase in short-term loans		177,372	183,356	150,201	155,268
Increase in long-term financial instruments		7,509	50	6,359	42
Acquisition of long-term investment securities		215,323	30,566	182,338	25,884
Acquisition of consolidated subsidiary and associates		62,552	880,138	52,970	745,311
Acquisition of property and equipment		1,590,158	939,077	1,346,564	795,221
Increase in intangible assets		32,617	22,909	27,620	19,400
Increase in long-term loans		2,334	81,840	1,976	69,303
Increase in other non-current assets		4	531	3	450
Sub-total		2,634,869	2,207,777	2,231,237	1,869,572

(Continued)

SK TELECOM CO., LTD.

SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

	Notes	Korean won 2011	Korean won 2010	Translation into U.S. dollars (Note 2) 2011	Translation into U.S. dollars (Note 2) 2010
		(In millions)		(In thousands)	
Net cash used in investing activities		((Won) 1,990,277)	((Won) 1,223,183)	($ 1,685,390)	($ 1,035,805)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Cash inflows for financing activities:					
Proceeds from short-term borrowings		500,000	100,000	423,406	84,681
Sub-total		500,000	100,000	423,406	84,681
Cash outflows for financing activities:					
Repayment of current portion of long-term debt		670,000	290,000	567,364	245,575
Acquisition of treasury stock		208,012	156,088	176,147	132,177
Repayment of bonds payable		332,160	240,000	281,277	203,235
Cash dividends		668,293	680,016	565,918	575,846
Cash outflows from transaction of derivatives		17,694		14,984	
Sub-total		1,896,159	1,366,104	1,605,690	1,156,833
Net cash used in financing activities		(1,396,159)	(1,266,104)	(1,182,284)	(1,072,152)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,038,848	(173,587)	879,708	(146,995)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		357,470	422,125	302,710	357,460
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCY			32		27
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		(Won) 1,396,318	(Won) 248,570	$ 1,182,418	$ 210,492

See accompanying notes to separate financial statements.

SK TELECOM CO., LTD.

NOTES TO SEPARATE FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 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 September 30, 2011, the Company s total issued shares are held by the following:

	Number of shares	Percentage of total shares issued (%)
SK Holdings, Co., Ltd.	18,748,452	23.22
Tradewinds Global Investors, LLC	4,050,518	5.02
POSCO Corp.	2,341,569	2.90
Institutional investors and other minority stockholders	44,554,460	55.17
Treasury stock	11,050,712	13.69
	80,745,711	100.00

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 accompanying separate financial statements have been condensed, restructured and translated into English with certain expanded descriptions from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company s financial position, income, comprehensive income, changes in shareholders equity or cash flows, is not presented in the accompanying separate financial statements.

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 (Won)1,180.90 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 nine months ended September 30, 2011. Such translations into U.S. dollars should not be construed as representations that the Korean won amounts could be converted into U.S. dollars at that or any other rate.

w. Basis of Presentation

The Company has adopted the 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.

141

The Company s interim separate financial statements for the nine months ended September 30, 2011 and 2010 are prepared in accordance with K-IFRS 1034 Interim Financial Reporting . The interim financial statements are prepared in accordance with the K-IFRS that are effective as of September 30, 2011.

There may be newly or amended K-IFRS and interpretations that are effective subsequent to the current period-end. Accounting policies that are used for the preparation of the interim separate financial statements may be different from the policies that are used for the preparation of the first annual separate financial statements in accordance with K-IFRS as of and for the period ending December 31, 2011. Currently, enactments and amendments of the K-IFRSs are in progress, and the financial information presented in the interim financial statements may change accordingly in the future.

Major accounting policies used for the preparation of the interim 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 interim separate financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

x. Foreign Currency Exchange

The individual financial statements of each Company entity 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 each Company entity 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 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 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); 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 profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting separate 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 profit or loss.

y. 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.

z. 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 investments , available-for-sale 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.

4) Classification of financial assets

1-5) Financial assets at fair value through profit or loss (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 profit or loss. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognized immediately in profit or loss.

1-6) Held-to-maturity 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 held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

143

1-7) Available-for-sale financial assets

Non-derivatives financial assets that are not classified as at held-to-maturity; held-for-trading; designated as at fair value through profit or loss; or loans and receivables are classified as at available-for-sale financial assets. Available-for-sale financial assets are initially recognized and 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 profit or loss. 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 profit or loss. Dividends on available-for-sale financial assets are recognized in profit or loss when the Company s right to receive the dividends is established.

1-8) 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.

5) 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 investment have been affected.

For listed and unlisted equity investments classified as available-for-sale 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 available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets carried at amortized cost, the amount of the impairment loss is measured at the difference between the similar asset s carrying amount and the present value of estimated future cash flows, discounted at the financial asset s original effective interest rate.

For financial assets carried at acquisition 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. These impairment loss is not reversed to an event occurring after the impairment was recognized.

For financial assets carried at amortized cost, 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 profit or loss 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.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In case of debt securities, in a subsequent period, if the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

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 profit or loss.

6) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, 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.

aa. 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 market value of inventories is less than the acquisition cost, the carrying amount is reduced to the market value and any difference is charged to current operations as operating expenses.

bb. Investments in Subsidiaries and Associates

In accordance with K-IFS 1027 and 1028, 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.

cc. 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
Other	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.

dd. 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 previous estimates, the changes are accounted for a 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 in which the property is derecognized) is included in profit or loss in the period in which the property is derecognized.

ee. 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.

ff. 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 their estimated useful lives ranging from 3 ~ 20 years. 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. At the case of amortizable intangible assets, the Company reviews impairment at each time whether the events are occurring that the carrying amount is not recoverable.

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

gg. 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 consolidated 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 profit or loss in the period in which they become receivable by the Company.

hh. 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.

m. 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 fair value through profit or loss (FVTPL) or other financial liabilities .

3) 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 profit or loss 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, that 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 profit or loss. The net gain or loss recognized in profit or loss 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.

4) Derecognition of financial liabilities

The Company derecognizes financial liabilities when the Company s obligations are discharged, cancelled or they expire. An exchange between an existing borrower and lender of debt instruments 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 profit or loss.

n. 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 profit or loss, 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.

o. 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 profit or loss immediately unless the derivative is designated and effective as a hedging instrument. 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 (loss).

p. 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 all actuarial gains and losses arising from defined benefit plans as other comprehensive income (loss) and records at retained earnings immediately, which is not reclassified to current operation thereafter.

q. 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. Discount rate is pre-tax interest rate reflecting inherent risk of liabilities and market s valuation on the present value of monetary. Changes in provisions caused by elapse of time are the financial cost as incurred and recognized in profit or loss.

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.

r. Revenue Recognition

Revenue from the sale of goods and rendering of services in the course of ordinary operating activities is measured at the fair value of the consideration received or receivable. Revenues are realized or realizable and earned when the Company has persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, sales price is fixed or determinable and collectability is reasonably assured.

The Company s revenue is principally derived from telecommunication service including data services, broadband internet and fixed-line telephone services. Telecommunication services consist of fixed monthly charges, usage-related charges and non-refundable activation fees. Fixed monthly charges are recognized in the period earned. Usage-related charges are recognized at the time services are rendered. Non-refundable activation fees are deferred and recognized over the expected term of the customer relationship.

s. Segment information

The Company reports management its decision of resource allocation and performance evaluation of

segment unit as a single reporting unit.

t. Income Tax and Deferred Tax

Income tax consists of current tax and deferred tax.

4) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the separate statement of income and comprehensive income/income statement 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.

5) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the separate financial statements and the corresponding tax bases used in the computation of taxable profit. 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 profits 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 profit nor the accounting profit.

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 profits 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 profits 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.

6) 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.

u. 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 and the subsidies are charged to commission paid as the related payments are made.

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.

v. 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.

8) 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 profit or loss 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 the management s judgments on the expected future cash flows and discount rates.

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

Based on the aging of accounts receivables, past experience of bad debt, and economic and industrial factors, the Company estimates bad debt for the period and recognizes an allowance for the bad debt.

10) 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 directors to estimate the future cash flows expected to arise from the cash-generating unit and an appropriate discount rate in order to calculate present value.

11) Measurement of property and equipment, intangible assets

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

12) Provisions

Determining whether that the Company will be required to settle the obligation incurred as a result of a past event and estimating reliable value of obligation require management s judgment.

13) 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 make 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.

14) Deferred tax

Recognizing and measuring of the deferred tax assets and liabilities requires the management s judgments and specially, whether and how deferred tax assets is recognized shall be affected from an assumption and management s judgment of the future situation.

3. TRANSITION TO K-IFRS

As stated in Note 2, these are the Company s first separate financial statements prepared in accordance with K-IFRS as the Company adopts K-IFRS in 2011. Therefore, prior period s separate financial statements, comparatively presented herein, were restated in accordance with K-IFRS 1101 First-time adoption of International Financial Reporting Standards with a transition date of January 1, 2010.

d. First-time adoption of K-IFRS

K-IFRS 1101 provides for a number of optional exemptions from the general principle of full retrospective applications of K-IFRS. The optional exemptions for first-time adoption of K-IFRS of the Company elected are as follows.

1) Business combination

Business combinations that occurred before the date of transition to K-IFRS, were not be retrospectively restated.

2) Fair value or revaluation as deemed cost

Certain property and equipment were revaluated at the date of transition to K-IFRS such that revaluation is used as the asset s deemed cost.

3) Deemed cost of investments in subsidiaries and associates

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.

e. Explanation of effect of transition to K-IFRS

Effects on financial position at January 1, 2010 (date of transition) are as follows (in millions of Korean won):

	Total assets	Total liabilities	Net equity
Based on Korean GAAP	(Won) 19,297,633	(Won) 8,056,183	(Won) 11,241,450
Adjustments:			
1. Property and equipment	69,233		69,233
2. Employee benefits and retirement benefit obligation		14,860	(14,860)
3. Transfer of financial assets	416,242	400,754	15,488
4. Non-refundable activation fees		593,981	(593,981)
5. Other adjustments	(178,452)	(84,941)	(93,511)
6. Deferred tax and tax effect of adjustments	(49,227)	(210,859)	161,632
Total adjustment	257,796	713,795	(455,999)
Based on K-IFRS	(Won) 19,555,429	(Won) 8,769,978	(Won) 10,785,451

Effects on financial position at September 30, 2010 and total comprehensive income for the three months and nine months ended September 30, 2010 are as follows (in millions of Korean won):

	Total assets	Total liabilities	Net equity	Total comprehensive income Three months ended September, 30	Total comprehensive income Nine months ended September, 30
Based on Korean GAAP	(Won) 19,333,859	(Won) 7,910,180	(Won) 11,423,679	(Won) 451,917	(Won) 1,013,758
Adjustments:					
1. Property and equipment	296,839		296,839	118,759	227,606
2. Amortization of goodwill	97,111		97,111	32,370	97,111
3. Employee benefits and retirement benefit obligation		18,020	(18,020)	(736)	(3,161)
4. Transfer of financial assets	179,921	160,609	19,312	60	3,824
5. Effect on equity method in associates	58,263		58,263	30,854	57,981
6. Non-refundable activation fees		552,160	(552,160)	25,463	41,821
7. Other adjustments	875	88,858	(87,983)	(1,569)	5,529
8. Deferred tax and tax effect of adjustments		(65,453)	65,453	(42,188)	(96,902)
Total adjustment	633,009	754,194	(121,185)	163,013	333,809
Based on K-IFRS	(Won) 19,966,868	(Won) 8,664,374	(Won) 11,302,494	(Won) 614,930	(Won) 1,347,567

Effects on 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):

	Total assets	Total liabilities	Net equity	Total Comprehensive income
Based on Korean GAAP	(Won) 18,959,912	(Won) 7,505,495	(Won) 11,454,417	(Won) 1,139,202
Adjustments:				
1. Property and equipment	477,044		477,044	407,811
2. Amortization of goodwill	129,494		129,494	129,494
3. Employee benefits and retirement benefit obligation		23,630	(23,630)	(8,771)
4. Transfer of financial assets				(15,489)
5. Effect on equity method in associates	160,100		160,100	205,543
6. Non-refundable activation fees		533,783	(533,783)	60,199
7. Other adjustments	(389)	94,062	(94,451)	(940)
8. Deferred tax and tax effect of adjustments	965	(10,802)	11,767	(150,274)
Total adjustment	767,214	640,673	126,541	627,573
Based on K-IFRS	(Won) 19,727,126	(Won) 8,146,168	(Won) 11,580,958	(Won) 1,766,775

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.

153

f. Explanation of transition to K-IFRS

Transition adjustments from previous GAAP (Korean GAAP) to K-IFRS that affected the Company s financial position, financial performance and cash flows are as follows.

9) Employee benefits and retirement benefit obligation

Under Korean GAAP, at the end of a reporting period a benefit obligation is calculated and recognized, based on an assumption that all employees who have worked over a year were to retire as of the reporting period end. While, under K-IFRS, the retirement benefit amount is appropriated as a defined benefit obligation by actuarial assessment using the projected unit credit method.

Also, the Company recognizes its long-term employee benefits obligation by actuarial assessment using the projected unit credit method.

10) Change in depreciation method

The Company changed the depreciation method of equipment from declining balance method to straight-line method.

11) Goodwill acquired by business combinations

Under Korean GAAP, the Company amortized goodwill acquired as a result of business combinations on a straight-line method from 5 ~ 20 years from the year of acquisition. Under K-IFRS, goodwill is not amortized but reviewed for impairment annually.

12) Transfer of financial assets

Under Korean GAAP, when the Company transferred a financial asset to financial institutions and it was determined that control over the asset has been transferred the Company derecognized the financial asset. Under K-IFRS, if the Company retains substantially 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.

13) Deferment of non-refundable activation fees

Under Korean GAAP, the Company recognizes non-refundable activation revenues when the activation service is performed. Under K-IFRS, the Company defers such revenues and amortizes it over the expected term of the customer relationship.

14) 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. 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, difference between the carrying value and the tax base of the investments in subsidiaries, branches and 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, branches 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.

15) Other reclassifications

(1) Memberships

Under Korean GAAP, facility-use memberships and guarantee deposits were classified as other non-current assets. Under K-IFRS, facility-use memberships are recognized as intangible assets with an indefinite useful life and guarantee deposits that satisfy the definition of financial assets are classified as loans and receivables at amortized costs.

(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, such properties are reclassified separately as investment properties.

4. FINANCIAL INSTRUMENTS

Details of financial assets as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011				
	Financial assets designated as at FVTPL	Available-for-sale financial assets	Loans and receivables	Derivatives designated as hedging instruments	Total
Cash and cash equivalents	(Won)	(Won)	(Won) 1,396,318	(Won)	(Won) 1,396,318
Financial Instruments			713,078		713,078
Short-term investment securities		85,263			85,263
Long-term investment securities (Note a)	15,067	1,367,695			1,382,762
Trade receivables			1,334,787		1,334,787
Loan and other receivables (Note b)			1,626,449		1,626,449
Derivatives assets				147,494	147,494
Total	(Won) 15,067	(Won) 1,452,958	(Won) 5,070,632	(Won) 147,494	(Won) 6,686,151

	December 31, 2010				
	Financial assets Designated as at FVTPL	Available-for-sale financial assets	Loans and receivables	Derivatives designated as hedging instruments	Total
Cash and cash equivalents	(Won)	(Won)	(Won) 357,470	(Won)	(Won) 357,470
Financial Instruments			299,569		299,569
Short-term investment securities		393,811			393,811
Long-term investment securities		1,517,029			1,517,029
Trade receivables			1,453,060		1,453,060
Loan and other receivables (Note b)			3,328,587		3,328,587
Derivatives assets				139,577	139,577
Total	(Won)	(Won) 1,910,840	(Won) 5,438,686	(Won) 139,577	(Won) 7,489,103

(Note a) Long-term investment securities designated as at FVTPL consist of financial instruments with an embedded derivatives (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 loan and other receivables as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Short-term loans	(Won) 88,765	(Won) 80,731
Accounts receivable other	1,293,249	2,499,969
Accrued income	8,133	2,345
Long-term loans	72,931	64,098
Long-term accounts receivable other	8,322	527,084
Guarantee deposits	155,049	154,360
	(Won) 1,626,449	(Won) 3,328,587

Details of financial liabilities as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011			
	Financial liabilities Designated as at FVTPL	Financial liabilities at amortized cost	Derivatives designated as hedging instruments	Total
Derivatives liabilities	(Won) 1,654	(Won)	(Won) 811	(Won) 2,465
Borrowings		617,950		617,950
Bonds payable (Note a)	409,278	2,731,477		3,140,755
Trade and other payables (Note b)		1,790,060		1,790,060
Total	(Won) 410,932	(Won) 5,139,487	(Won) 811	(Won) 5,551,230

	December 31, 2010			
	Financial liabilities designated as at FVTPL	Financial liabilities at amortized cost	Derivatives designated as hedging instruments	Total
Derivatives liabilities	(Won) 5,043	(Won)	(Won) 25,111	(Won) 30,154
Borrowings		613,890		613,890
Bonds payable (Note a)	461,655	3,011,765		3,473,420
Trade and other payables (Note b)		2,033,006		2,033,006
Total	(Won) 466,698	(Won) 5,658,661	(Won) 25,111	(Won) 6,150,470

(Note a) Bonds payables designated as at 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 loan and other receivables as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Accounts payable-other	(Won) 1,032,909	(Won) 1,287,035
Withholdings	18	18

Accrued expenses	433,523	452,103
Current portion of long-term debt	17,354	168,948
Long-term payables other	231,731	50,643
Other non-current liabilities	74,525	74,259
	(Won) 1,790,060	(Won) 2,033,006

156

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 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 September 30, 2011 are as follows (in millions of Korean won):

Type	Level 1	Level 2	Level 3	Total
Financial assets designated as at FVTPL	(Won)	(Won) 15,067	(Won)	(Won) 15,067
Available- for-sale financial assets	1,172,282			1,172,282
Derivatives assets designated as hedging instruments		147,494		147,494
Financial liabilities designated as at FVTPL	409,278	1,654		410,932
Derivatives liabilities designated as hedging instruments		811		811

157

5. TRADE AND OTHER RECEIVABLES

Details of short-term trade and other receivables as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Accounts receivable trade	(Won) 1,497,617	(Won) 1,604,269
Less allowance for doubtful accounts	(162,830)	(151,208)
Accounts receivable trade, net	1,334,787	1,453,061
Short-term loans	89,923	81,808
Less allowance for doubtful accounts	(1,158)	(1,077)
Short-term loans, net	88,765	80,731
Accounts receivable other	1,328,922	2,534,761
Less allowance for doubtful accounts	(35,673)	(34,792)
Accounts receivable other, net	1,293,249	2,499,969
Accrued income	8,133	2,345
	(Won) 2,724,934	(Won) 4,036,106

Details of long-term trade and other receivables as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Long-term loans	(Won) 96,728	(Won) 88,016
Less allowance for doubtful accounts	(23,797)	(23,919)
Long-term loans, net	72,931	64,097
Long-term accounts receivable - other	8,322	527,084
Guarantee deposits	155,049	154,360
	(Won) 236,302	(Won) 745,541

Details of changes in allowance for doubtful accounts for the nine months ended September 30, 2011 and 2010 are as follows (In millions of Korean won):

	For the nine months ended	
	September 30, 2011	September 30, 2010
Beginning balance	(Won) 210,996	(Won) 201,435
Bad debt	33,819	44,931
Reversal of allowance for doubtful accounts	(41)	
Write-off	(36,061)	(31,320)
Collection of receivables written off	14,745	12,925
Ending balance	(Won) 223,458	(Won) 227,971

Details of aging analysis of accounts receivable which are overdue but not impaired as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011		December 31, 2010	
	Accounts receivable-trade	Accounts receivable-other	Accounts receivable-trade	Accounts receivable-other
Less than 1 month	(Won) 143,642	(Won) 16,535	(Won) 156,023	(Won) 33,127
1 ~ 3 months	62,597	15,992	62,075	21,169
3 ~ 6 months	28,660	12,822	32,079	14,390
More than 6 months	96,594	30,800	110,293	26,988
	(Won) 331,493	(Won) 76,149	(Won) 360,470	(Won) 95,674

6. INVESTMENT SECURITIES

Details of investment securities as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011		December 31, 2010	
	Current	Non-current	Current	Non-current
Equity securities:				
Investments in listed company	(Won)	(Won) 1,087,260	(Won) 178,760	(Won) 1,227,380
Investments in non-listed company	241	18,226	15,051	18,626
Investments in funds and etc.		261,807		270,622
Sub-total	241	1,367,293	193,811	1,516,628
Debt Securities		15,468		401
Beneficiary certificates (Note)	85,022		200,000	
Total	(Won) 85,263	(Won) 1,382,761	(Won) 393,811	(Won) 1,517,029

(Note) The distributions arising from some beneficiary certificates as of September 30, 2011, are accounted for as accrued income.

7. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Investments in subsidiaries	(Won) 2,475,473	(Won) 2,442,516
Investments in associates	1,165,048	1,141,879
Ending balance	(Won) 3,640,521	(Won) 3,584,395

a. Investments in subsidiaries

Details of investments in subsidiaries as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won, except for share data):

		September 30, 2011		Carrying amount	
	Notes	Number of shares	Ownership percentage (%)	September 30, 2011	December 31, 2010
SK Telink Co., Ltd.		1,082,272	83.5	(Won) 144,740	(Won) 144,740
SK Communications Co., Ltd.		28,029,945	64.7	148,831	148,831
PAXNet Co., Ltd.		5,590,452	59.7	30,611	30,611
Loen Entertainment, Inc.		16,054,812	63.5	40,234	40,234
Stonebridge Cinema Fund	(Note a)	120	45.6	8,256	8,256
Ntreev Soft Co., Ltd.		2,064,970	63.7	7,708	7,708
Commerce Planet Co., Ltd.		29,396	100.0	139	139
SK Broadband Co., Ltd.		149,638,354	50.6	1,242,247	1,242,247
K-net Culture and Contents Venture Fund		295	59.0	28,857	28,857
2nd BMC Focus Investment Fund		200	66.7	19,782	19,782
Open Innovation Fund		450	98.9	44,938	44,938
PS&Marketing Corporation		46,000,000	100.0	213,934	213,934
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 Telecom China Holdings Co., Ltd.			100.0	28,052	28,052
Sky Property Mgmt., Ltd.		22,980	60.0	264,850	264,850
SKT Vietnam PTE., Ltd.		180,476,700	73.3	26,264	26,264
SKT Americas, Inc.		109	100.0	59,167	59,167
YTK Investment Ltd.	(Note b)		100.0	52,123	41,686
Atlas Investment	(Note c)		46.4	22,520	
SK Telecom Global Investment B.V		18,000	100.0	41,012	41,012
Total				(Won) 2,475,473	(Won) 2,442,516

(Note a) As the SK Telink Co., Ltd., one of the Company s subsidiaries, holds additional 11.4% ownership in Stonebridge Cinema Fund, the consolidated ownership is 57% and the investments in Stonebridge Cinema Fund is classified as investments in subsidiaries.

(Note b) For the nine months ended September 30, 2011, the Company additionally invested (Won)10,437 million in YTK Investment Ltd.

(Note c) For the nine months ended September 30, 2011, the Company established Atlas Investment. The Company and SK Telecom Global Investment B.V., one of the company s subsidiaries, hold 46.4% and 53.6% ownership in Atlas Investment, respectively.

160

b. Investments in associates

Details of investments in associates as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won, except for share data):

	Notes	September 30, 2011 Number of shares	September 30, 2011 Ownership percentage (%)	Carrying amount September 30, 2011	Carrying amount December 31, 2010
SK Marketing & Company Co., Ltd.		5,000,000	50.0	(Won) 112,531	(Won) 112,531
SK China Company Ltd.		720,000	22.5	47,830	47,830
SK USA, Inc.		49	49.0	5,498	5,498
BMC Sector Limited Partnership IV		2,500	49.7	25,000	25,000
F&U Credit information Co., Ltd.		300,000	50.0	4,482	4,482
Michigan Global Cinema Fund		40	36.4	3,652	3,652
3rd Fund of Isu Entertainment	(Note a)				1,636
Korea IT Fund	(Note b)	190	63.3	220,957	220,957
JYP Entertainment Corporation	(Note c)			1,286	2,903
BMC Digital Culture and Contents Venture Fund	(Note d)	50	19.9	4,912	4,912
Wave City Development Co., Ltd.	(Note g)	382,000	19.1	1,532	1,532
HanaSK Card Co., Ltd.		57,647,058	49.0	400,000	400,000
Daehan Kanggun BcN Co., Ltd.		1,461,486	29.0	7,272	7,272
Television Media Korea Ltd.		18,564,000	51.0	18,568	18,568
NanoEnTek, Inc.	(Note e)	1,807,130	9.3	11,000	
UNISK(Beijing) Information Technology Co., Ltd.		49	49.0	4,247	4,247
TR Entertainment			42.2	7,560	7,560
PT. Melon Indonesia		4,900,000	49.0	6,492	6,492
Packet One Network	(Note f)	1,151,556	28.2	137,750	119,856
SK Technology Innovation Company			49.0	28,146	28,146
LightSquared Inc.	(Note g)	3,387,916	3.3	72,096	72,096
SK Wyverns Baseball Club Co., Ltd. and others				44,237	46,709
Total				(Won) 1,165,048	(Won) 1,141,879

(Note a) During the nine months ended September 30, 2011, in accordance with the liquidation of 3rd Fund of Isu Entertainment, relevant all shares was disposed and the company recognized (Won)121 million as gain on disposal of investments in associates.

(Note b) Under an agreement of Korea IT Fund, the Company has voting rights of 14.3%, resulting in the Company having no control over Korea IT Fund.

(Note c) 483,830 shares of common stock of JYP Entertainment Corporation were sold during the nine months ended September 30, 2011 and the company recognized (Won)1,869 million as gain to Loen Entertainment, Inc., one of the company s subsidiaries, on disposal of investments in associates.

(Note d) As the SK Broadband Co., Ltd., one of the Company s subsidiaries, holds additional 19.9% ownership in BMC Digital culture and Contents Venture Fund, the investment in the investee is classified as investment in associate.

(Note e) For the nine months ended September 30, 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 the investee through participation of its board of directors even though the Company has less than 20% of equity invest in the investee.

(Note f) For the nine months ended September 30, 2011, the Company additionally invested (Won)17,895 million in Packet One Network and acquired additional 172,082 shares.

(Note g) The Company classified 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 in boards of directors even though the Company has less than 20% of equity invests in those investees.

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 September 30, 2011 are as follows (In millions of Korean won, except for market price per share):

	Marketprice per share (In Korean won)	Number of shares owned by the Company	Market price
SK Broadband Co., Ltd.	(Won) 3,590	149,638,354	(Won) 537,202
SK Communications Co., Ltd.	18,400	28,029,945	515,751
Loen Entertainment, Inc.	14,100	16,054,812	226,373

8. PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Land	(Won) 405,975	(Won) 402,702
Buildings and structures	1,582,189	1,544,963
Machinery	15,093,701	14,354,988
Other	1,537,473	1,285,999
Construction in progress	401,573	376,896
Total	19,020,911	17,965,548
Less accumulated depreciation	(13,347,414)	(12,495,801)
Property and equipment, net	(Won) 5,673,497	(Won) 5,469,747

162

Details of changes in property and equipment for the nine months ended September 30, 2011 and 2010 are as follows (In millions of Korean won):

	For the nine months ended September 30, 2011					
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	(Won) 402,702	(Won) 2,109	((Won) 92)	(Won) 1,257	(Won)	(Won) 405,976
Buildings and structures	928,649	38,430	(866)	4,349	(52,203)	918,359
Machinery	3,240,001	48,749	(3,696)	871,588	(953,730)	3,202,912
Other	521,499	906,058	(2,613)	(620,788)	(59,479)	744,677
Construction in progress	376,896	792,002	(8,061)	(759,264)		401,573
Total	(Won) 5,469,747	(Won) 1,787,348	((Won) 15,328)	((Won) 502,858)	((Won) 1,065,412)	(Won) 5,673,497

	For the nine months ended September 30, 2010					
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	(Won) 405,418	(Won) 109	((Won) 6,919)	(Won) 1,775	(Won)	(Won) 400,383
Buildings and structures	979,833	1,688	(1,231)	3,505	(52,470)	931,325
Machinery	3,170,336	25,556	(4,200)	440,783	(814,445)	2,818,030
Other	330,726	516,902	(1,778)	(318,308)	(51,763)	475,779
Construction in progress	336,834	394,822	(27,871)	(242,691)		461,094
Total	(Won) 5,223,147	(Won) 939,077	((Won) 41,999)	((Won) 114,936)	((Won) 918,678)	(Won) 5,086,611

163

9. INVESTMENT PROPERTY

Investment property as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Land	(Won) 11,546	(Won) 9,508
Buildings	56,762	46,467
Total	68,308	55,975
Less accumulated depreciation	(28,373)	(21,176)
Investment property, net	(Won) 39,935	(Won) 34,799

Details of changes in investment property for the nine months ended September 30, 2011 and 2010 are as follows (In millions of Korean won):

	For the nine months ended September 30, 2011					
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	(Won) 9,508	(Won)	(Won)	(Won) 2,038	(Won)	(Won) 11,546
Buildings	25,291			5,757	(2,659)	28,389
Total	(Won) 34,799	(Won)	(Won)	(Won) 7,795	((Won) 2,659)	(Won) 39,935

	For the nine months ended September 30, 2010					
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	(Won) 11,314	(Won)	(Won)	((Won) 1,775)	(Won)	(Won) 9,539
Buildings	31,294			(3,472)	(2,197)	25,625
Total	(Won) 42,608	(Won)	(Won)	((Won) 5,247)	((Won) 2,197)	(Won) 35,164

Details of fair value of investment property as of September 30, 2011 and December 31, 2010 are as follows (In millions of Korean won):

	September 30, 2011	December 31, 2010
Land	(Won) 66,358	(Won) 54,647
Buildings	27,808	22,900
Total	(Won) 94,166	(Won) 77,547

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

10. GOODWILL

Details of goodwill as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Goodwill related to acquisition of Shinsegi Telecomm, Inc	(Won) 1,306,236	(Won) 1,306,236
Other goodwill	2,186	2,186
	(Won) 1,308,422	(Won) 1,308,422

11. INTANGIBLE ASSETS

Details of changes in intangible assets for the nine months ended September 30, 2011 and 2010 are as follows (In millions of Korean won):

	For the nine months ended September 30, 2011					
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Ending balance
Frequency use rights	(Won) 709,043	(Won)	(Won)	(Won) 404,970	((Won) 109,767)	(Won) 1,004,246
Land use right	11,130	3,642	(54)		(3,064)	11,654
Industrial right	14,748	1,395		323	(2,587)	13,879
Software development costs	4,898				(2,619)	2,279
Membership (Note a)	90,108	3,313	(2,400)			91,021
Other (Note b)	595,042	24,267	(87)	89,806	(220,989)	488,039
Total	(Won) 1,424,969	(Won) 32,617	((Won) 2,541)	(Won) 495,099	((Won) 339,026)	(Won) 1,611,118

	For the nine months ended September 30, 2010					
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Ending balance
Frequency use rights	(Won) 727,239	(Won)	(Won)	(Won)	((Won) 87,398)	(Won) 639,841
Land use right	11,732	1,635			(2,533)	10,834
Industrial right	14,948	2,862			(2,863)	14,947
Software development costs	12,528				(3,592)	8,936
Membership (Note a)	89,777	730	(21)			90,486
Other (Note b)	591,067	17,682	(4,480)	118,489	(200,270)	522,488
Total	(Won) 1,447,291	(Won) 22,909	((Won) 4,501)	(Won) 118,489	((Won) 296,656)	(Won) 1,287,532

165

(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 usable and profitable donation assets.
The book value and residual useful lives of major intangible assets as of September 30, 2011 are as follows (in millions of Korean won):

	Amount	Description	Residual useful lives
IMT license	(Won) 509,578	Frequency use rights relating to W-CDMA service	(note a)
W-CDMA license	85,633	Frequency use rights relating to W-CDMA service	(note b)
800MHz license	395,304	Frequency use rights relating to CDMA and LTE service	(note c)
WiBro license	10,356	WiBro service	(note d)
DMB license	3,375	DMB service	4 years 9 months

(note a) The Company purchased the W-CDMA license from KCC 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-COMA license will expire in December 2016.
(note b) The Company purchased an the 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-COMA license will expire in December 2016.
(note c) The Company purchased rhe 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 June, 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 a WiBro license from KCC on March 30, 2005. The license period is for 7 years from the purchase date. Amortization of the WiBro license commenced when the Company started its commercial WiBro services on September 30, 2006, under a straight line basis over the remaining useful life.

12. BONDS PAYABLE

Bonds payable as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won, thousands of U.S. dollars and thousands of Japanese yen):

	Maturity	Annual Interest rate (%)	September 30, 2011	December 31, 2010
Domestic general bonds	2011	3.0	(Won) 200,000	(Won) 200,000
	2013	4.0~6.92	450,000	450,000
	2014	5.0	200,000	200,000
	2015	5.0	200,000	200,000
	2016	5.0~5.92	470,000	470,000
	2018	5.0	200,000	200,000
Dollar denominated bonds (US$300,000)	2011	4.25		341,670
Dollar denominated bonds (US$400,000)	2027	6.63	471,800	455,560
Yen denominated bonds (JPY 15,500,000) (note a)	2012	3 M Euro Yen LIBOR+0.55~2.5	238,175	216,547
Yen denominated bonds (JPY 5,000,000) (note a)	2012	3 M Euro Yen TIBOR+2.5	76,830	69,854
Floating rate notes (US$ 220,000) (note a)	2012	3 M LIBOR+3.15	259,490	250,558
Convertible bonds (US$ 332,528) (note b, c)	2014	1.75	409,278	461,655
Sub total			3,175,573	3,515,844
Less discounts on bonds			(34,818)	(42,424)
Net			3,140,755	3,473,420
Less portion due within one year			(990,231)	(539,607)
Long-term portion			(Won) 2,150,524	(Won) 2,933,813

(note a) The 3-months Euro Yen LIBOR rate, the 3-months Euro Yen TIBOR rate and the 3-month LIBOR rate as of September 30, 2011 are 0.19%, 0.33% and 0.37%, 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 conversion price of (Won)230,010 per share of the Company s common stock, which was greater than market value at the date of issuance. 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 September 30, 2011 is 2,177,389 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, the Conversion price has changed from (Won)220,000 to (Won)211,271 and the number of common shares that can be converted changed from 2,090,996 shares to 2,177,389 shares due to the payment of periodic dividends. During the nine months ended September 30, 2011, no conversion was made.

13. BORROWINGS

Detail of borrowings as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won, thousands of U.S. dollars and thousands of Japanese yen):

Lender	Maturity	Annual interest rate (%) (note b)	September 30, 2011		December 31, 2010	
Korea Development Bank (Note a)	2011	91 days CD yield + 1.02	(Won)		(Won)	100,000
Citibank (Note a)	2011	91 days CD yield + 1.20	(Won)		(Won)	100,000
Nonghyup (Note a)	2011	91 days CD yield + 1.30	(Won)		(Won)	100,000
Hana Bank (Note a)	2011	91 days CD yield + 1.50	(Won)		(Won)	150,000
Nonghyup (Note a)	2011	91 days CD yield + 1.50	(Won)		(Won)	50,000
Credit Agricole (Note b)	2013	6M Libor + 0.29	US$	30,000	US$	30,000
Bank of China			US$	20,000	US$	20,000
DBS Bank			US$	25,000	US$	25,000
SMBC			US$	25,000	US$	25,000
Total			(Won)		(Won)	500,000
			US$	100,000	US$	100,000
Equivalent in Korean won			(Won)	117,950	(Won)	613,890
Less portion due within one year						(500,000)
Long-term portion			(Won)	117,950	(Won)	113,890

(Note a) Borrowings were repaid during the third quarter of 2011.
(Note b) As of September 30, 2011, the 6-month Libor rate is 0.56%

168

14. PROVISION

Details of change in the provisions for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended September 30, 2011				As of September 30, 2011	
	Beginning balance	Increase	Decrease	Ending balance	Current	Non-current
Provision for handset subsidy	(Won) 732,042	(Won) 668,247	((Won) 638,970)	(Won) 761,319	(Won) 646,507	(Won) 114,812
Provision for point program	266	389	(261)	394	158	236
Provision for restoration	27,740	2,726	(2,804)	27,662		27,662
Total	(Won) 760,048	(Won) 671,362	((Won) 642,035)	(Won) 789,375	(Won) 646,665	(Won) 142,710

	For the nine months ended September 30, 2010				As of September 30, 2010	
	Beginning balance	Increase	Decrease	Ending balance	Current	Non-current
Provision for handset subsidy	(Won) 609,733	(Won) 738,729	((Won) 605,998)	(Won) 742,464	(Won) 664,230	(Won) 78,234
Provision for point program	807	333	(139)	1,001	326	675
Provision for restoration	22,642	3,765		26,407		26,407
Total	(Won) 633,182	(Won) 742,827	((Won) 606,137)	(Won) 769,872	(Won) 664,556	(Won) 105,316

Also, the Company provides provision for handset subsidies to be provided to the subscribers who purchase handsets on an installment basis.

169

15. RETIREMENT BENEFIT OBLIGATION

g. Details of retirement benefit obligation as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Present value of defined benefit obligation	(Won) 123,011	(Won) 105,966
Fair value of plan assets	(77,065)	(84,584)
Total	(Won) 45,946	(Won) 21,382

h. Principal actuarial assumptions as of September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011	December 31, 2010
Discount rate for defined benefit obligations	5.49%	6.10%
Inflation rate	3.00%	3.00%
Expected rate of return on plan assets	4.74%	4.71%
Expected rate of salary increase	5.62%	5.87%

i. Changes in defined benefit obligations for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended September 30, 2011	September 30, 2010
Beginning balance	(Won) 105,966	(Won) 87,102
Current service cost	22,762	21,387
Interest cost	4,449	4,200
Actuarial gain or loss	6,538	(761)
Benefit paid	(17,072)	(12,744)
Others	368	382
Ending balance	(Won) 123,011	(Won) 99,566

j. Changes in plan assets for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended September 30, 2011	September 30, 2010
Beginning balance	(Won) 84,584	(Won) 66,489
Expected return on plan assets	2,819	2,202
Actuarial gain or loss	(901)	(908)
Benefit payment	(9,437)	(4,380)
Others		383
Ending balance	(Won) 77,065	(Won) 63,786

k. Expenses recognized in profit and loss for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won)

	For the nine months ended September 30, 2011	September 30, 2010
Current service cost	(Won) 22,762	(Won) 21,387
Interest cost	4,449	4,200
Expected return on plan assets	(2,818)	(2,202)
Total	(Won) 24,393	(Won) 23,385

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

l. Details of plan assets as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Equity instruments	(Won) 207	(Won) 21,687
Debt instruments	51,633	49,465
Others	25,225	13,432
Total	(Won) 77,065	(Won) 84,584

Actual return on plan assets for the nine months ended September 30, 2011 and 2010 is (Won)1,918 million and (Won)1,294 million, respectively.

16. SHARE CAPITAL AND SHARE PREMIUM

The Company s outstanding share capital consists entirely of common stock with a par value of (Won)500. The number of authorized, issued and outstanding common shares and share premium as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won, except for share data):

	September 30, 2011		December 31, 2010	
Authorized shares		220,000,000		220,000,000
Issued shares (Note)		80,745,711		80,745,711
Share capital				
Common stock	(Won)	44,639	(Won)	44,639
Share premium :				
Paid-in surplus		2,915,887		2,915,887
Treasury stock		(2,410,451)		(2,202,439)
Loss on disposal of treasury stock		(15,875)		(15,875)
Others		(722,597)		(722,216)
Total	((Won)	233,036)	((Won)	24,643)

There are no changes in share capital for the nine months ended September 30, 2011 and for the year ended December 31, 2010.

(Note) During the years ended December 31, 2003, 2006 and 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 has 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 (Won)1,992,083 million for providing stock dividends, to purchase odd-lot stocks remaining from new stocks issuance, merger with Shinsegi Telecom, Inc. and SK IMT Co., Ltd., increase shareholder value, and for stock price stabilization purpose.

Meanwhile from July 26, 2010 through October 20, 2010, the Company additionally acquired 1,250,000 shares of treasury stock for (Won)210,356 million and from July 21, 2011 through September 28, 2011, the Company additionally acquired 1,400,000 shares of treasury stock for (Won)208,012 million for in accordance with a 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 September 30, 2011 and December 31, 2010, the Company has 11,050,712 shares of treasury stock at (Won)2,410,451 million and 9,650,712 shares of treasury stock at (Won)2,202,439 million, respectively.

18. RETAINED EARNINGS

Retained earnings as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Appropriated :		
Legal reserve	(Won) 22,320	(Won) 22,320
Reserve for research and manpower development	535,595	658,928
Reserve for business expansion	8,009,138	7,519,138
Reserve for technology development	1,524,000	1,150,000
Sub-total	10,091,053	9,350,386
Unappropriated	1,482,950	1,473,970
Total	(Won) 11,574,002	(Won) 10,824,356

a. Legal Reserve

The Korean Commercial Code 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 only be used to offset a future deficit, if any, or may be transferred to share capital.

b. Reserve for research and manpower development

Reserve for research and manpower development 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.

173

19. RESERVES

Details of reserves as of September 30, 2011 and December 31, 2010 are as follows (in millions of Korean won):

	September 30, 2011	December 31, 2010
Net change in fair value of available-for-sale financial assets	(Won) 422,904	(Won) 803,075
Loss on valuation of derivatives	(82,224)	(66,469)
Total	(Won) 340,680	(Won) 736,606

Details of change in reserves for the nine months ended September 30, 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, 2011	(Won) 803,075	((Won) 66,469)	(Won) 736,606
Changes	(490,788)	(19,444)	(510,232)
Tax effect	110,617	3,689	114,306
Balance, September 30, 2011	(Won) 422,904	((Won) 82,224)	(Won) 340,680
Balance, January 1, 2010	(Won) 1,003,145	((Won) 4,416)	(Won) 998,729
Changes	(41,691)	(5,309)	(47,000)
Tax effect	4,395	1,415	5,810
Balance, September 30, 2010	(Won) 965,849	((Won) 8,310)	(Won) 957,539

Details of change in fair value of available-for-sale financial assets for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended					
	September 30, 2011			September 30, 2010		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Beginning balance	(Won) 1,032,888	((Won) 229,813)	(Won) 803,075	(Won) 1,288,839	((Won) 285,694)	(Won) 1,003,145
Recognized in other comprehensive income during the period	(353,219)	77,926	(275,293)	(54,089)	7,123	(46,966)
Reclassified from equity to profit or loss for the period	(137,569)	32,691	(104,878)	12,398	(2,728)	9,670
Ending balance	(Won) 542,100	((Won) 119,196)	(Won) 422,904	(Won) 1,247,148	((Won) 281,299)	(Won) 965,849

20. OTHER OPERATING INCOME AND EXPENSES

Details of other operating income and expenses for the three months and nine months ended September 30, 2011 and 2011 are as follows (in millions of Korean won):

	2011		2010	
	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30
Other operating income:				
Reversal of allowance for doubtful accounts (Note)	(Won) 41	(Won) 41	(Won)	(Won)
Gain on disposal of property and equipment and intangible assets (Note)	328	1,184	148	7,609
Other (Note)	9,403	15,045	5,602	7,427
	(Won) 9,772	(Won) 16,270	(Won) 5,750	(Won) 15,036
Other operating expenses:				
Communication expenses	(Won) 14,626	(Won) 42,037	(Won) 14,007	(Won) 41,443
Utilities	35,343	91,896	32,534	85,915
Taxes and dues	16,152	29,634	24,061	35,064
Repair	48,701	142,948	42,340	119,628
Research and development	67,198	182,964	64,097	180,071
Training	7,691	16,905	6,554	15,066
Bad debt	8,736	29,295	13,039	40,672
Supplies and other	15,169	42,692	13,095	39,322
Loss on disposal of property and equipment and intangible assets (Note)	6,230	13,585	28,514	33,479
Donations (Note)	15,480	60,075	18,754	95,728
Other bad debt (Note)	1,614	4,524	3,153	4,259
Other (Note)	1,866	7,062	1,069	6,576
	(Won) 238,806	(Won) 663,617	(Won) 261,217	(Won) 697,223

(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.

175

21. FINANCE INCOME AND COSTS

Details of finance income and costs for the three months and nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	2011		2010	
	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30
Finance income:				
Interest income	(Won) 35,184	(Won) 113,505	(Won) 57,533	(Won) 168,076
Dividends	7,203	33,676	9,282	38,981
Gain on foreign currency transactions	777	3,281	2,041	5,179
Gain on foreign currency translation		225	15,482	15,403
Gain on valuation of financial asset at FVTPL		1,067		
Gain on disposal of long-term investment securities		158,495	12,870	26,836
Gain on valuation of derivatives	1,301	3,389		
Gain on transactions of derivatives			1,255	1,255
Gain on valuation of financial liability at FVTPL	19,127	52,377		
	(Won) 63,592	(Won) 366,015	(Won) 98,463	(Won) 255,730
Finance costs:				
Interest expenses	(Won) 48,465	(Won) 148,375	(Won) 65,893	(Won) 204,821
Loss on foreign currency transactions	1,870	4,738	2,805	6,714
Loss on foreign currency translation	22,092	9,283		179
Loss on valuation of short-term investment securities			405	6,404
Loss on disposal of long-term investment securities	300	302	61	62
Loss on valuation of derivatives				20,806
Loss on transactions of derivatives		5,136		
Loss on valuation of financial liability at FVTPL			7,596	9,287
	(Won) 72,727	(Won) 167,834	(Won) 76,760	(Won) 248,273

Details of interest income included in finance income for the three months and nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	2011		2010	
	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30
Interest income on cash equivalents and deposits	(Won) 15,669	(Won) 33,390	(Won) 4,944	(Won) 18,145
Interest income on installment receivables and other interest income	19,515	80,115	52,589	149,931
	(Won) 35,814	(Won) 113,505	(Won) 57,533	(Won) 168,076

Details of interest expenses included in finance costs for the three months and nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	2011		2010	
	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30
Interest expense on borrowings	(Won) 6,783	(Won) 23,570	(Won) 13,104	(Won) 42,184
Interest on bonds	37,678	115,946	48,803	148,065
Other interest expenses	4,004	8,859	3,986	14,572
	(Won) 48,465	(Won) 148,375	(Won) 65,893	(Won) 204,821

176

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 three months and nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	2011				2010			
	Financial income		Financial costs		Financial income		Financial costs	
	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30
Financial assets:								
Financial assets designated as at FVTPL	(Won)	(Won) 1,067	(Won)	(Won)	(Won) 1,255	(Won) 1,255	(Won) 405	(Won) 23,932
Available-for-sale financial assets	8,054	195,308	300	302	22,951	69,329	62	62
Loans and receivables	35,110	113,860	1,600	4,741	68,303	169,776	3,186	6,889
Sub-total	43,164	310,235	1,900	5,043	92,509	240,360	3,653	30,883
Financial liabilities:								
Financial liabilities designated as at FVTPL	20,428	55,766					7,337	12,566
Financial liabilities at amortized cost		14	70,827	157,655	5,954	15,370	65,771	204,824
Derivatives designated as hedging instruments				5,136				
Sub-total	20,428	55,780	70,827	162,791	5,954	15,370	73,107	217,390
Total	(Won) 63,592	(Won) 366,015	(Won) 72,727	(Won) 167,834	(Won) 98,463	(Won) 255,730	(Won) 76,760	(Won) 248,273

Details of impairment losses for each class of financial assets for the three months and nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	2011		2010	
	Three months ended September, 30	Nine months ended September, 30	Three months ended September, 30	Nine months ended September, 30
Bad debt	(Won) 8,736	(Won) 29,295	(Won) 13,039	(Won) 40,672
Other bad debt	1,614	4,525	3,153	4,259
	(Won) 10,350	(Won) 33,820	(Won) 16,192	(Won) 44,931

177

22. NET INCOME PER SHARE

Net income per share for the three months and nine months ended September 30, 2011 and 2010 are computed as follows (in millions of Korean won, except for share data):

Net income per share

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Net income	(Won) 388,683	(Won) 513,904	(Won) 1,423,741	(Won) 1,388,904
Weighted average number of common shares outstanding	70,499,159	71,965,408	70,894,202	72,217,080
Net income per share (in Korean won)	(Won) 5,513	(Won) 7,141	(Won) 20,083	(Won) 19,232

Net income per for the three months ended March 31, 2011 and 2010 is (Won)7,886 and (Won)5,710, respectively. In addition, net income per share for the three months ended June 30, 2011 and 2010 is (Won)6,673 and (Won)6,384, respectively.

The weighted average number of common shares outstanding for the three months and nine months ended September 30, 2011 and 2010 are calculated as follows:

2011

	Number of shares	Weighted number of days	Weighted number of shares
For the three months ended September 30, 2011			
Outstanding common stocks at April 1, 2011	80,745,711	92 / 92	80,745,711
Treasury stocks at July 1, 2011	(9,650,712)	92 / 92	(9,650,712)
Acquisition of treasury stock	(1,400,000)	39 / 92 (Note)	(595,840)
Total	69,694,999		70,499,159
For the nine months ended September 30, 2011			
Outstanding common stocks at January 1, 2011	80,745,711	273 / 273	80,745,711
Treasury stocks at January 1, 2011	(9,650,712)	273 / 273	(9,650,712)
Acquisition of treasury stock	(1,400,000)	39 / 273 (Note)	(200,797)
Total	69,694,999		70,894,202

2010

	Number of Shares	Weighted number of days	Weighted number of shares
For the three months ended September 30, 2010			
Outstanding common stocks at April 1, 2010	80,745,711	92 / 92	80,745,711
Treasury stocks at July 1, 2010	(8,400,712)	92 / 92	(8,400,712)
Acquisition of treasury stock	(940,074)	37 / 92 (Note)	(379,591)

Total	71,404,925		71,965,408
For the nine months ended September 30, 2010			
Outstanding common stocks at January 1, 2010	80,745,711	273 / 273	80,745,711
Treasury stocks at January 1, 2010	(8,400,712)	273 / 273	(8,400,712)
Acquisition of treasury stock	(940,074)	37 / 273 (Note)	(127,919)
Total	71,404,925		72,217,080

(Note) The Company acquired treasury stocks on many different dates, and weighted number of shares was calculated considering each transaction date.

178

Diluted net income per share amounts for the three months and nine months ended September 30, 2011 and 2010 are computed as follows (in millions of Korean won, except for share data):

Diluted net income per share

	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Adjusted net income	(Won) 390,093	(Won) 515,364	(Won) 1,427,285	(Won) 1,392,827
Adjusted weighted average number of common shares outstanding	72,676,548	74,056,404	73,071,591	74,308,076
Diluted net income per share (in Korean won)	(Won) 5,368	(Won) 6,959	(Won) 19,533	(Won) 18,744

Diluted net income per share for the three months ended September 30, 2011 and 2010 is (Won)7,665 and (Won)5,570, respectively. In addition, diluted net income per share for the three months ended June 30, 2011 and 2010 is (Won)6,490 and (Won)6,220, respectively.

Adjusted net income per share and the adjusted weighted average number of common shares outstanding for the three months and nine months ended September 30, 2011 and 2010 are calculated as follows (In millions of Korean won, except for share data):

	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income and ordinary income	(Won) 388,683	(Won) 513,904	(Won) 1,423,741	(Won) 1,388,904
Effect of convertible bonds (Note)	1,410	1,460	3,544	3,923
Adjusted net income and ordinary income	(Won) 390,093	(Won) 515,364	(Won) 1,427,285	(Won) 1,392,827
Weighted average number of common shares outstanding	70,499,159	71,965,408	70,894,202	72,217,080
Effect of exchangeable bonds (Note)	2,177,389	2,090,996	2,177,389	2,090,996
Adjusted weighted average number of common shares outstanding	72,676,548	74,056,404	73,071,591	74,308,076

(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.

179

23. TRANSACTIONS WITH RELATED PARTIES

As of June 30, 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	Internet website services
	PAXNet Co., Ltd.	59.7	Internet website services
	Loen Entertainment, Inc.	63.5	Release of music disc
	Stonebridge Cinema Fund	45.6	Investment association
	Ntreev Soft Co., Ltd.	63.7	Game software production
	SK i-media Co., Ltd.	100.0 (Note c)	Game software production
	Commerce Planet Co., Ltd.	100.0	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	Investment association
	2nd BMC Focus Investment Fund	66.7	Investment association
	Open Innovation Fund	98.9	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 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
	Technology Innovation Partners, LP	100.0 (Note c)	Investment association
	Atlas Investment	46.4	Investment association
	SK Telecom Global Investment B.V	100.0	Investment association
	SK Telecom China Fund I L.P	100.0 (Note c)	Investment association

(Note a) The ownership percentage represents the ultimate parent Company s ownership over the parent company.

(Note b) The ownership percentage represents the 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.

180

a. Transactions and balances with related parties

Significant related party transactions for the three months and nine months ended September 30, 2011 and 2010, and account balances as of September 30, 2011 and December 31, 2010 are as follows (In millions of Korean won):

a-(1) Transactions

	For three months ended September 30, 2011			For nine months ended September 30, 2011		
	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.	(Won) 59,645	(Won) 71,337	(Won) 1,500	(Won) 141,829	(Won) 205,064	(Won) 3,478
Parent Company:						
SK Holdings Co., Ltd.		6,438	250		19,325	614
Subsidiaries:						
SK Telink Co., Ltd.		25,305	16,709		77,401	50,989
SK Communications Co., Ltd.	1,947	21,116	1,849	1,947	32,200	5,712
Loen Entertainment, Inc.		9,305	1,190		30,048	3,686
Ntreev Soft Co., Ltd.			3,257			10,622
Commerce Planet Co., Ltd.	2,711	42,281	7,453	2,757	120,941	22,458
SK Broadband Co., Ltd.	28,088	87,231	26,154	40,384	208,418	69,879
PS&Marketing Corporation		77,272	1,016		190,691	2,308
Service Ace Co., Ltd.		36,989	2,084		94,100	6,868
Service Top Co., Ltd.		34,137	1,567		88,814	5,275
Network O&S Co., Ltd.	8,324	36,349	523	15,391	87,823	1,517
SK Telecom China Holdings Co., Ltd.					9,639	
SKT Americas, Inc.		1,750			6,448	
Others	115	925	42	115	1,530	174
Associates:						
SK Marketing & Company Co., Ltd.	4,430	36,214	1,669	6,613	89,012	5,412
F&U Credit Information Co., Ltd.		11,768	364		32,505	1,074
SK Wyverns Baseball Club Co., Ltd.		4,910	4		15,904	17
HanaSK Card Co., Ltd.	3	86,150	24,126	13	210,127	62,609
Others		2,947		29	4,944	1
Others:						
SK Energy Co.,Ltd.		111	329		136	816
SK MNS Co., Ltd.		3,038	1,587		9,008	2,856
SK Engineering & Construction Co., Ltd.	67,626	6,005	912	127,491	9,178	2,310
SK Telesys Co., Ltd.	45,286	4,017	194	124,702	9,194	496
SK Networks Co., Ltd.	1,829	67,648	1,872	4,743	235,216	9,438
MRO Korea Co., Ltd.	2,662	1,027	1	4,721	3,230	4
SK Networks Service Co., Ltd.		10,224	42		25,749	121
Others	1,112	21,621	4,901	2,371	47,720	7,857
Total	(Won) 223,778	(Won) 706,115	(Won) 99,595	(Won) 473,106	(Won) 1,864,365	(Won) 276,591

181

	For three months ended September 30, 2010			For nine months ended September 30, 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.	(Won) 59,757	(Won) 70,300	(Won) 1,370	(Won) 89,672	(Won) 189,924	(Won) 6,328
Parent Company:						
SK Holdings Co., Ltd.	49	6,178	333	118	18,504	723
Subsidiaries:						
SK Telink Co., Ltd.		28,528	16,115		85,100	49,965
SK Communications Co., Ltd.		9,404	2,320	229	14,446	7,662
Loen Entertainment, Inc.		8,537	603		25,375	2,461
Ntreev Soft Co., Ltd.	94	1,588	74	94	4,067	78
Commerce Planet Co., Ltd.	60	22,398	2,730	3,486	71,912	6,651
SK Broadband Co., Ltd.	10,928	49,144	18,820	10,928	108,569	50,154
PS&Marketing Corporation		80,523	547	1	242,322	1,543
Service Ace Co., Ltd.		30,364	1,375		30,364	1,375
Service Top Co., Ltd.		28,637	1,260		28,637	1,260
Network O&S Co., Ltd.		22,105	488		22,104	488
SK Telecom China Holdings Co., Ltd.		2,266			7,536	
SKT Americas, Inc.		9,890			13,090	
Others	10	3,131	462	10	3,131	462
Associates:						
SK Marketing & Company Co., Ltd.	681	40,900	1,897	2,691	124,416	4,871
F&U Credit Information Co., Ltd.		9,258	546		29,820	1,637
SK Wyverns Baseball Club Co., Ltd.		4,500	11		12,900	47
HanaSK Card Co., Ltd.		15,970			15,970	
Others		2,695	3		7,527	3
Others:						
SK Energy Co., Ltd.		263	1,740		700	3,915
SK MNS Co., Ltd.	9	2,743	73	649	7,178	213
SK Engineering & Construction Co., Ltd.	89,397	4,433	665	117,133	5,552	4,520
SK Telesys Co., Ltd.	89,890	1,303	137	176,760	3,757	940
SK Networks Co., Ltd.	2,734	120,100	4,653	3,257	358,633	13,289
MRO Korea Co., Ltd.	538	1,324	11	4,419	2,578	34
SK Networks Service Co., Ltd.		6,461	80		17,838	215
Others	13,074	27,057	1,275	14,158	37,682	4,118
Total	(Won) 267,221	(Won) 610,000	(Won) 57,588	(Won) 423,605	(Won) 1,489,632	(Won) 162,952

a-(2) Account balances

	As of September 30, 2011					
	Accounts Receivable and loans	Short-term loans	Long-term loans	Guarantee deposits	Accounts payable	Guarantee deposits received
Ultimate parent company:						
SK C&C Co., Ltd.	(Won) 2,828	(Won)	(Won)	(Won)	(Won) 72,283	(Won) 197
Parent Company:						
SK Holdings Co., Ltd.	194					
Subsidiaries:						
SK Telink Co., Ltd.	3,187				7,840	3,281
SK Communications Co., Ltd.	2,620				15,596	5,524
Loen Entertainment, Inc.	326				3,017	
Ntreev Soft Co., Ltd.	4,799					
Commerce Planet Co., Ltd.	10,413				20,055	
SK Broadband Co., Ltd.	356			1,151	34,264	40,388
PS&Marketing Corporation					35,540	6,061
Service Ace Co., Ltd.					13,923	3,997
Service Top Co., Ltd.					11,979	3,367
Network O&S Co., Ltd.	292				2,952	170
SKT Vietnam PTE., Ltd.	3,874					
Others	1				587	150
Associates:						
SK Marketing & Company Co., Ltd.	3,606				21,504	
F&U Credit Information Co., Ltd.	23				3,760	
Wave City Development Co., Ltd.	38,412					
HanaSK Card Co., Ltd.	6,741				895	
Daehan Kanggun BcN Co., Ltd.			14,786			
Others		575	1,832		1,027	
Others:						
SK MNS Co., Ltd.	993				1,425	
SK Engineering & Construction Co., Ltd.	1,078				2,672	82
SK Telesys Co., Ltd.	489				7,601	
SK Networks Co., Ltd.	949			5,513	16,677	696
MRO Korea Co., Ltd.					2,355	
Others	2,463			91	11,647	47
Total	(Won) 83,644	(Won) 575	(Won) 16,618	(Won) 6,755	(Won) 287,599	(Won) 63,960

183

	As of December 31, 2010					
	Accounts Receivable and loans	Short-term loans	Long-term loans	Guarantee deposits	Accounts payable	Guarantee deposits received
Ultimate parent company:						
SK C&C Co., Ltd.	(Won) 843	(Won)	(Won)	(Won)	(Won) 163,154	(Won) 197
Parent Company:						
SK Holdings Co., Ltd.	524					
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 Co., Ltd.					6,984	
SKT Vietnam PTE., Ltd.	4,205					
SKT Americas, Inc.					7,830	
Others	224				911	150
Associates:						
SK Marketing & Company Co., Ltd.	3,382				32,304	
F&U Credit Information Co., Ltd.	47				7,002	
Wave City Development Co., Ltd.	38,412					
HanaSK Card Co., Ltd.	8,478				19,948	
Daehan Kanggun BcN Co., Ltd.			30,224			
Others	9	575	1,831		1,826	
Others:						
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	
Others	1,985			96	6,255	70
Total	(Won) 108,358	(Won) 575	(Won) 32,055	(Won) 6,759	(Won) 493,250	(Won) 62,753

184

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 three months and nine months ended September 30, 2011 and 2010 are as follows (In millions of Korean won):

	For the three months ended September 30, 2011			For the nine months ended September 30, 2011		
Payee	Payroll	Severance indemnities	Total	Payroll	Severance indemnities	Total
Eight(8) Registered directors (including outside directors)	(Won) 399	(Won) 107	(Won) 506	(Won) 9,230	(Won) 731	(Won) 9,961

	For the three months ended September 30, 2010			For the nine months ended September 30, 2010		
Payee	Payroll	Severance indemnities	Total	Payroll	Severance indemnities	Total
Eight(8) Registered directors (including outside directors)	(Won) 358	(Won) 75	(Won) 433	(Won) 2,651	(Won) 518	(Won) 3,169

24. 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 September 30, 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 (Won)5,971 million (net of tax effect totaling (Won)1,242 million and foreign exchange translation loss arising from U.S. dollar denominated long-term borrowings totaling (Won)23,150 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 September 30, 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 (Won)1,240 million (net of tax effect totaling (Won)1,177 million and foreign exchange translation loss arising from unguaranteed Japanese yen denominated bonds totaling (Won)88,006 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 September 30, 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 (Won)2,325 million (net of tax effect totaling (Won)656 million and foreign exchange translation gain arising from unguaranteed Japanese yen denominated bonds totaling (Won)35 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 September 30, 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 (Won)760 million (net of tax effect totaling (Won)214 million and foreign exchange translation gain arising from unguaranteed Japanese yen denominated bonds totaling (Won)1,786 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 September 30, 2011, in connection with unsettle foreign currency swap contract to which cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to (Won)80,579 million (excluding tax effect totaling (Won)22,727 million and foreign exchange translation gain arising from unguaranteed U.S. dollar denominated bonds totaling (Won)14,042 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 (Won)129,806 million was charged to current operations.

b. Interest rate swap contract which no hedge accounting is applied

The Company has entered into a floating-to-fixed interest rate swap contract with DBS and Calyon Bank the interest rate risk of floating rate U.S. dollar denominated bonds with face amounts totaling US$220,000,000 issued on April 29, 2009. In connection with unsettled interest rate swap contract to which the hedge accounting is not applied, gain on valuation of currency swap of (Won)3,389 million and loss on valuation of interest swap of (Won)3,279 million for the nine months ended September 30, 2011 and 2010, respectively, are charged to current operations.

186

As of September 30, 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, Japanese yen and millions of Korean won):

Type	Hedged item	Amount	Duration of Contract	Fair value Designated as Cash Flow Hedge	Fair value Not Designated	Total
current assets:						
Floating-to-fixed cross currency interest swap	Japanese yen denominated bonds	JPY 3,000,000	Jan. 22, 2009 ~ Jan. 22, 2012	(Won) 2,946	(Won)	(Won) 2,946
Non-current assets:						
Floating-to-fixed cross currency swap	U.S. dollar denominated long-term borrowings	US$ 100,000	Oct. 10, 2006 ~ Oct. 10, 2013	(Won) 15,937	(Won)	(Won) 15,937
Fix-to-fixed cross currency swap	U.S. dollar denominated bonds	US$ 400,000	Jul. 20, 2007 ~ Jul. 20, 2027	40,543		40,543
Floating-to-fixed cross currency swap	Japanese yen denominated bonds	JPY 12,500,000	Nov. 13, 2007 ~ Nov. 13, 2012	88,068		88,068
Total assets				(Won) 147,494	(Won)	(Won) 147,494
Current liabilities:						
Floating-to-fixed cross currency interest swap	Japanese yen denominated bonds	JPY 5,000,000	Mar. 05, 2009 ~ Mar. 5, 2012	811		811
Floating-to-fixed Interest rate swap	U.S. dollar denominated bonds	US$ 220,000	Apr. 29, 2009 ~ Apr. 29, 2012		1,654	1,654
Total liabilities				(Won) 811	(Won) 1,654	(Won) 2,465

187

25. SEPERATE STATEMENTS OF CASH FLOWS

Adjustments for income and expenses from operating activities for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended	
	September 30, 2011	September 30, 2010
Gain on disposal of property, equipment and intangible assets	((Won) 1,184)	((Won) 7,609)
Interest income	(113,505)	(168,076)
Dividend income	(33,676)	(38,981)
Gain on foreign exchange translation	(225)	(15,402)
Gain on valuation of financial assets at FVTPL	(1,067)	
Gain on disposal of long term investments assets	(158,495)	(26,836)
Gain on valuation of derivatives	(3,389)	
Gain on valuation of financial liabilities at FVTPL	(52,377)	
Gain on disposal of investments in associates	(1,990)	(6,408)
Other income	(2,879)	(1,405)
Interest expenses	148,375	204,821
Loss on valuation of short-term investment securities		6,404
Loss on foreign exchange translation	9,283	179
Loss on disposal of long term investments assets	302	62
Loss on valuation of derivatives		20,806
Loss on transaction of derivatives	5,136	
Loss on valuation of financial liabilities at FVTPL		9,287
Loss on disposal of investments in associates	1,291	
Income tax expense	512,952	429,252
Provision for retirement benefits	23,403	23,003
Depreciation and amortization	1,407,097	1,217,531
Bad debt expenses	29,295	40,672
Loss on disposal of property, equipment and intangible assets	13,585	33,479
Other bad debt expenses	4,524	4,259
Other expenses	4,854	12,263
	(Won) 1,791,310	(Won) 1,737,301

188

Changes in assets and liabilities from operating activities for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended September 30, 2011	September 30, 2011
Accounts receivable - trade	(Won) 89,147	(Won) 129,402
Accounts receivable - other	1,202,545	(482,185)
Advance payments	36,957	(22,920)
Prepaid expenses	44,124	(10,175)
Inventories	(6,843)	7,029
Other current assets	233	13,271
Long-term accounts receivables - other	518,762	(148,799)
Accounts payable -other	(254,493)	(11,946)
Advanced receipts	8,939	9,094
Withholdings	137,191	195,047
Current provision	(6,165)	148,461
Accrued expenses	(7,939)	42,697
Unearned revenue	(33,213)	(43,292)
Retirement benefit payment	(17,072)	(12,744)
Plan assets	9,436	4,380
Non-current provisions	35,492	(11,771)
Other non-current liabilities	(1,064)	40,767
	(Won) 1,756,037	((Won) 153,684)

Significant non-cash transactions for the nine months ended September 30, 2011 and 2010 are as follows (in millions of Korean won):

	For the nine months ended September 30, 2011	September 30, 2010
Transfer construction is progress to of property and equipment	(Won) 1,395,780	(Won) 580,951
Accounts payable -other of tangible assets and others	197,189	
Write-off of accounts receivable-trade and others	36,061	31,320
Transfer long-term borrowings to current portion of long-term debt account		700,000
Transfer bonds payable to current portion of long-term debt account	809,781	418,760
Transfer long-term payables - other to current portion of long-term debt account	17,533	170,000

26. SUBSEQUENT EVENT

On November 11, 2011, in accordance with the resolution of the Board of Directors, the Company agreed to acquire 146,100,000 shares of common stock in Hynix Semiconductor Inc. for approximately (Won)3,426,675 million on February 14, 2012. The Company will acquire the investee s common stock by cash settlement (old and new stock purchase), the Company s ownership for Hynix Semiconductor Inc. will be 21.05%.

27. 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 spin off its platform business segment and established SK Planet Co., Ltd. on October 1, 2011 SK Planet Co.,Ltd. was registered on October 5, 2011. General information related to the split-off are 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 split-off are as follows;

	Before	After	
	(September 30 2011)	(October 1, 2011)	
	SK Telecom Co., Ltd.	SK Telecom Co., Ltd.	SK Planet Co., Ltd.
Total Assets	(Won) 19,400,114	(Won) 19,084,651	(Won) 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

28. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

The Company is exposed to credit risk, liquidity risk and market risks. 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 mainly on exchange fluctuations on recognized assets and liabilities. The Company manages currency risk by currency forward, etc if needed to hedge currency risk on business transactions. The occurrence of currency risk is mainly on forecasted transaction and recognized assets and liabilities which are denominated in a currency other than the functional currency of the Company.

190

The book value of the Company s monetary assets and liabilities denominated in foreign currencies as of September 30, 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$	6,835	(Won) 8,062	1,063,205	(Won) 1,254,044
EUR	283	454	2,059	3,297
JPY	52,411	805	20,501,392	315,026
SGD			519	954
CNY			19	3
		(Won) 9,321		(Won) 1,573,324

Effects of a 10% change in foreign currency to the Company s functional currency on income before income tax as of September 30, 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$	((Won) 66,408)	(Won) 66,408
EUR	(284)	284
JPY	(229)	229
Others	(196)	196

a-(2) Equity price risk

The Company has investments in listed and non-listed equity securities for its liquidity and ongoing operational purposes. As of September 30, 2011, marketable equity securities is (Won)1,102,282 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 September 30, 2011, borrowings and bonds payables with floating interest rate is (Won)691,224 million and the Company has entered into interest rate swaps to hedge interest rate risk related to all floating-rate borrowings and bonds payables(Refer to Note 24).

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 nine months ended September 30, 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 derivates. 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 September 30, 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 21.

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 September 30, 2011 is as follows (in millions of Korean won):

	Less than 1 year	1-5 years	More than 5 years	Total
Borrowings	(Won) 500,000	(Won) 117,950	(Won)	(Won) 617,950
Bonds payable (Note a)	991,697	1,512,076	671,800	3,175,573
Derivatives liabilities	2,465			2,465
Other payables (Note b)	1,483,982	317,843		1,801,825
Total	(Won) 2,978,144	(Won) 1,947,869	(Won) 671,800	(Won) 5,597,813

(Note a) Exclusive of bond discount.
(Note b) Includes undiscounted long-term payables and long-term security deposits the Company received.

192

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 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 September 30, 2011 and December 31, 2010 are as follows (In millions of Korean won):

	September 30, 2011	December 31, 2010
Debt	(Won) 7,673,828	(Won) 8,146,168
Equity	11,726,286	11,580,958
Debt-equity ratio	65.44%	70.34%

SIGNATURES

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

SK TELECOM CO., LTD.
(*Registrant*)

By: /s/ Soo Cheol Hwang
(*Signature*)
Name: Soo Cheol Hwang
Title: Senior Vice President

Date: January 6, 2012

194