

SK TELECOM CO LTD

Form 6-K

March 30, 2005

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

Form 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE MONTH OF MARCH 2005

SK Telecom Co., Ltd.

(Translation of registrant's name into English)

99, Seorin-dong
Jongro-gu
Seoul, Korea

(Address of principal executive offices)

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

Form 20-F

Form 40-F

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

Yes

No

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

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SK Telecom s Audit Report for the Fiscal Year of 2004

On March 2, 2005, SK Telecom Co. Ltd. (SK Telecom) released audit report for the fiscal year of 2004, which includes comparative non-consolidated financial statements for the years ended December 31, 2004 and 2003 and related notes to the statements.

Exhibit: SK Telecom s 2004 Audit Report

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SIGNATURES

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

SK TELECOM Co., LTD.

By: /s/ Sung Hae Cho

Name: Sung Hae Cho

Title: Vice President

Date: March 25, 2005

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SK TELECOM CO., LTD.
NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
AND INDEPENDENT AUDITORS' REPORT

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Independent Auditors Report

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

We have audited the accompanying non-consolidated balance sheets of SK Telecom Co., Ltd. (the Company) as of December 31, 2004 and 2003, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the years then ended (all expressed in Korean won). These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the non-consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall non-consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements presents fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations, the appropriations of its retained earnings and its cash flows for the years then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea.

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

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Member of
Deloitte Touche Tohmatsu

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Without qualifying our opinion, we draw attention to the following :

As described in Note 26(a) to the accompanying non-consolidated financial statements, the Company acquired the license for WiBro, a portable internet service which is scheduled to start commercial operations in June 2006, together with KT Corporation and Hanaro Telecom Inc. through deliberation of the Committee of Information and Communication Policy dated January 20, 2005. With regard to this service, the Company is scheduled to make contribution of W117 billion and receive the WiBro license from the Ministry of Information and Technology by the end of February 2005.

As described in Note 26(b) to the accompanying non-consolidated financial statements, in accordance with the resolution of the Company's board of directors dated January 26, 2005, the Company and EarthLink, Inc., an internet service provider in the United States of America, agreed to establish SK-EarthLink, a joint venture company, in the United States of America in February 2005 in order to provide wireless telecommunication service across the United States of America. The Company will invest US\$220 million for a 50% equity interest in the joint venture company from 2005 through 2007. SK-EarthLink plans to launch cellular voice and data services across the United States of America by the third quarter of 2005 by renting networks from network operators throughout the United States of America, also known as partial mobile virtual network operator (MVNO) system.

As described in Note 24 to the accompanying non-consolidated financial statements, on May 1, 2003, the Company merged with SK IMT Co., Ltd. in the accordance with a resolution of the Company's board of directors dated December 20, 2002, and the approval of the shareholders of SK IMT Co., Ltd. dated February 21, 2003.

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

January 28, 2005

Notice to Readers

This report is effective as of January 28, 2005, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modification to the auditors' report.

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SK TELECOM CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

| | In millions of Korean won | | In thousands of U.S. dollars (Note 2) | |
|---|---------------------------|------------------|--|-------------------|
| | 2004 | 2003 | 2004 | 2003 |
| ASSETS | | | | |
| CURRENT ASSETS : | | | | |
| Cash and cash equivalents (Note 12) | W 112,966 | W 28,393 | \$ 109,135 | \$ 27,430 |
| Short-term financial instruments (Note 12) | 7,700 | 100,513 | 7,439 | 97,105 |
| Trading securities (Notes 2 and 3) | 640,389 | 858,739 | 618,674 | 829,619 |
| Current portion of long-term investment securities (Notes 2 and 3) | 3,600 | 85,861 | 3,478 | 82,949 |
| Accounts receivable – trade (net of allowance for doubtful accounts of W58,248 million in 2004 and W56,805 million in 2003) (Notes 2, 12 and 22) | 1,562,774 | 1,438,836 | 1,509,781 | 1,390,045 |
| Short-term loans (net of allowance for doubtful accounts of W562 million in 2004 and W516 million in 2003) (Notes 2, 5 and 22) | 55,613 | 51,102 | 53,727 | 49,369 |
| Accounts receivable – other (net of allowance for doubtful accounts of W13,665 million in 2004 and W15,979 million in 2003) (Notes 2, 12 and 22) | 1,365,226 | 811,496 | 1,318,932 | 783,978 |
| Inventories (Note 2) | 10,961 | 8,024 | 10,589 | 7,752 |
| Accrued income and other | 95,116 | 77,742 | 91,890 | 75,107 |
| Total Current Assets | 3,854,345 | 3,460,706 | 3,723,645 | 3,343,354 |
| NON-CURRENT ASSETS : | | | | |
| Property and equipment, net (Notes 2, 6, 21 and 22) | 4,605,253 | 4,551,626 | 4,449,090 | 4,397,281 |
| Intangible assets, net (Notes 2 and 7) | 3,448,619 | 3,600,268 | 3,331,677 | 3,478,184 |
| Long-term investment securities (Notes 2 and 3) | 923,537 | 855,195 | 892,220 | 826,196 |
| Equity securities accounted for using the equity method (Notes 2 and 4) | 826,246 | 563,539 | 798,228 | 544,430 |
| Long-term loans (net of allowance for doubtful accounts of W19,173 million in 2004 and W19,502 million in 2003) (Notes 2, 5 and 22) | 28,284 | 41,591 | 27,325 | 40,181 |
| Guarantee deposits (Notes 12 and 22) | 242,387 | 246,004 | 234,168 | 237,662 |
| Long-term deposits and other | 92,034 | 57,030 | 88,913 | 55,095 |
| Total Non-Current Assets | 10,166,360 | 9,915,253 | 9,821,621 | 9,579,029 |
| TOTAL ASSETS | W 14,020,705 | W 13,375,959 | \$ 13,545,266 | \$ 12,922,383 |

(Continued)

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SK TELECOM CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2004 AND 2003

| LIABILITIES AND STOCKHOLDERS EQUITY | In millions of Korean won | | In thousands of U.S. dollars (Note 2) | |
|---|---------------------------|-------------|--|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| CURRENT LIABILITIES: | | | | |
| Accounts payable (Notes 12 and 22) | W 1,070,588 | W 1,117,835 | \$ 1,034,285 | \$ 1,079,929 |
| Short-term borrowings | 400,000 | 728,669 | 386,436 | 703,960 |
| Income taxes payable | 267,797 | 399,852 | 258,716 | 386,293 |
| Accrued expenses | 378,303 | 401,245 | 365,475 | 387,639 |
| Current portion of long-term debt, net (Notes 2, 8, 9 and 11) | 498,278 | 1,364,264 | 481,382 | 1,318,002 |
| Current portion of facility deposits (Note 10) | 13,405 | 10,824 | 12,950 | 10,457 |
| Other | 231,340 | 209,285 | 223,495 | 202,189 |
| | | | | |
| Total Current Liabilities | 2,859,711 | 4,231,974 | 2,762,739 | 4,088,469 |
| | | | | |
| LONG-TERM LIABILITIES : | | | | |
| Bonds payable, net (Notes 2 and 8) | 2,891,843 | 2,256,644 | 2,793,781 | 2,180,122 |
| Long-term borrowings (Note 9) | | 1,633 | | 1,578 |
| Subscription deposits (Note 10) | 31,440 | 44,197 | 30,374 | 42,698 |
| Long-term payables other, net of present value discount of W72,663 million in 2004 and W85,881 million in 2003 (Note 2) | 577,337 | 564,119 | 557,760 | 544,990 |
| Accrued severance indemnities, net (Notes 2 and 22) | 75,409 | 63,663 | 72,852 | 61,504 |
| Deferred income tax liabilities (Notes 2 and 17) | 323,096 | 242,057 | 312,140 | 233,849 |
| Long-term currency swap (Notes 2 and 23) | 96,743 | | 93,462 | |
| Guarantee deposits received and other (Note 22) | 38,034 | 29,834 | 36,744 | 28,822 |
| | | | | |
| Total Long-Term Liabilities | 4,033,902 | 3,202,147 | 3,897,113 | 3,093,563 |
| | | | | |
| Total Liabilities | 6,893,613 | 7,434,121 | 6,659,852 | 7,182,032 |
| | | | | |
| STOCKHOLDERS EQUITY : | | | | |
| Capital stock (Notes 1 and 13) | 44,639 | 44,639 | 43,125 | 43,125 |
| Capital surplus (Note 13) | 2,983,166 | 2,915,964 | 2,882,008 | 2,817,084 |
| Retained earnings : (note 14) | | | | |
| Appropriated | 4,733,936 | 4,743,822 | 4,573,409 | 4,582,960 |
| Unappropriated | 1,422,772 | 396,527 | 1,374,526 | 383,081 |
| Capital adjustments : | | | | |
| Treasury stock (Note 15) | (2,047,105) | (2,047,103) | (1,977,688) | (1,977,686) |

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| | | | | |
|---|--------------|--------------|---------------|---------------|
| Unrealized loss on valuation of long-term investment securities (Notes 2 and 3) | (89,842) | (156,948) | (86,795) | (151,626) |
| Equity in capital adjustments of affiliates (Notes 2 and 4) | 124,145 | 41,196 | 119,935 | 39,799 |
| Loss on valuation of currency swap (Notes 2 and 23) | (49,452) | | (47,775) | |
| Stock options (Notes 2 and 16) | 4,833 | 3,741 | 4,669 | 3,614 |
| | | | | |
| Total Stockholders Equity | 7,127,092 | 5,941,838 | 6,885,414 | 5,740,351 |
| | | | | |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | W 14,020,705 | W 13,375,959 | \$ 13,545,266 | \$ 12,922,383 |

See accompanying notes to non-consolidated financial statements.

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SK TELECOM CO., LTD.
NON-CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2004 AND 2003

| | In millions of Korean won, | | In thousands of U.S. dollars, | |
|--|----------------------------|------------------|------------------------------------|------------------|
| | except for per share data | | except for per share data (Note 2) | |
| | 2004 | 2003 | 2004 | 2003 |
| OPERATING REVENUE (Note 2 and 22) | W 9,703,681 | W 9,520,244 | \$ 9,374,631 | \$ 9,197,415 |
| OPERATING EXPENSES (Notes 2 and 22) | | | | |
| Labor cost | (402,734) | (348,455) | (389,077) | (336,639) |
| Commissions paid | (2,827,159) | (2,324,587) | (2,731,291) | (2,245,761) |
| Depreciation and amortization (Notes 6 and 7) | (1,577,434) | (1,488,165) | (1,523,944) | (1,437,702) |
| Network interconnection | (858,754) | (738,236) | (829,634) | (713,203) |
| Leased line | (365,444) | (302,288) | (353,052) | (292,037) |
| Advertising | (328,552) | (361,114) | (317,411) | (348,869) |
| Research and development | (203,741) | (199,074) | (196,832) | (192,323) |
| Rent | (167,671) | (140,213) | (161,985) | (135,458) |
| Cost of goods sold | (5,915) | (19,152) | (5,714) | (18,503) |
| Other | (606,696) | (518,300) | (586,123) | (500,724) |
| Sub-total | (7,344,100) | (6,439,584) | (7,095,063) | (6,221,219) |
| OPERATING INCOME | 2,359,581 | 3,080,660 | 2,279,568 | 2,976,196 |
| OTHER INCOME : | | | | |
| Interest income | 68,319 | 68,259 | 66,002 | 65,944 |
| Dividends | 23,843 | 25,923 | 23,034 | 25,044 |
| Commissions (Note 22) | 32,843 | 95,243 | 31,729 | 92,013 |
| Foreign exchange and translation gains (Note 2) | 10,897 | 2,064 | 10,527 | 1,994 |
| Gain on disposal of property and equipment | 2,054 | 2,709 | 1,984 | 2,617 |
| Gain on transaction of currency swap (Note 2) | 2,850 | | 2,753 | |
| Equity in earnings of affiliates (Notes 2 and 4) | 53,825 | | 52,000 | |
| Other | 42,498 | 56,250 | 41,059 | 54,343 |
| Sub-total | 237,129 | 250,448 | 229,088 | 241,955 |
| OTHER EXPENSES : | | | | |
| Interest and discounts | (302,491) | (375,609) | (292,234) | (362,872) |
| Donations | (19,796) | (25,780) | (19,125) | (24,906) |
| Foreign exchange and translation losses (Note 2) | (6,248) | (1,065) | (6,036) | (1,029) |
| Loss on disposal and impairment of property, equipment and intangible assets | (18,344) | (12,816) | (17,722) | (12,381) |

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|---|-----------|-----------|-----------|-----------|
| Loss on impairment of long-term investment securities (Notes 2 and 3) | (32,074) | (20,343) | (30,986) | (19,653) |
| Loss on disposal of investment assets | (810) | (45,175) | (783) | (43,643) |
| Equity in losses of affiliates (Notes 2 and 4) | | (30,537) | | (29,501) |
| Loss on transaction and valuation of currency swap (Notes 2 and 23) | (15,819) | | (15,283) | |
| Other | (85,350) | (105,589) | (82,455) | (102,010) |
| Sub-total | (480,932) | (616,914) | (464,624) | (595,995) |
| ORDINARY INCOME | 2,115,778 | 2,714,194 | 2,044,032 | 2,622,156 |

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SK TELECOM CO., LTD.
NON-CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)
YEARS ENDED DECEMBER 31, 2004 AND 2003

| | In millions of Korean won, except for per share data | | In thousands of U.S. dollars, except for per share data (Note 2) | |
|--|---|-------------|--|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| EXTRAORDINARY GAINS | W | W | \$ | \$ |
| INCOME BEFORE INCOME TAXES | 2,115,778 | 2,714,194 | 2,044,032 | 2,622,156 |
| PROVISION FOR INCOME TAXES (Notes 2 and 17) | (620,926) | (771,444) | (599,870) | (745,284) |
| NET INCOME | W 1,494,852 | W 1,942,750 | \$ 1,444,162 | \$ 1,876,872 |
| NET INCOME PER SHARE (In Korean won and U.S. dollars) (Note 18) | W 20,307 | W 25,876 | \$ 19.62 | \$ 25.00 |

See accompanying notes to non-consolidated financial statements.

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SK TELECOM CO., LTD.
NON-CONSOLIDATED STATEMENTS OF
APPROPRIATIONS OF RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2004 AND 2003

| | In millions of Korean won | | In thousands of U.S. dollars (Note 2) | |
|--|---------------------------|-------------|--|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| RETAINED EARNINGS BEFORE APPROPRIATIONS | | | | |
| Beginning of year | W 1,534 | W 1,537 | \$ 1,482 | \$ 1,485 |
| Retirement of treasury stock (Note 15) | | (1,545,281) | | (1,492,881) |
| Equity in beginning retained earnings adjustments of equity-method investees (Notes 2 and 4) | | (2,479) | | (2,395) |
| Interim dividends (Note 19) | (73,614) | | (71,118) | |
| Net income for the year | 1,494,852 | 1,942,750 | 1,444,162 | 1,876,872 |
| End of year | 1,422,772 | 396,527 | 1,374,526 | 383,081 |
| TRANSFER FROM VOLUNTARY RESERVES | | | | |
| Reserve for research and manpower development (Note 14) | 84,235 | 62,902 | 81,379 | 60,769 |
| Reserve for business expansion (Note 14) | | 483,000 | | 466,622 |
| | 84,235 | 545,902 | 81,379 | 527,391 |
| APPROPRIATIONS | | | | |
| Legal reserve (Note 14) | | (32) | | (31) |
| Reserve for loss on disposal of treasury stock (Note 14) | | (255,984) | | (247,304) |
| Reserve for research and manpower development (Note 14) | (130,000) | (280,000) | (125,592) | (270,505) |
| Reserve for business expansion (Note 14) | (691,000) | | (667,568) | |
| Cash dividends (Note 19) | (684,613) | (404,879) | (661,398) | (391,150) |
| | (1,505,613) | (940,895) | (1,454,558) | (908,990) |
| UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO THE FOLLOWING YEAR | | | | |
| | W 1,394 | W 1,534 | \$ 1,347 | \$ 1,482 |

See accompanying notes to non-consolidated financial statements.

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SK TELECOM CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003

| | In millions of Korean won | | In thousands of U.S. dollars (Note 2) | |
|--|---------------------------|---------------|---|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| CASH FLOWS FROM OPERATING ACTIVITIES : | | | | |
| Net income | W1,494,852 | W1,942,750 | \$ 1,444,162 | \$ 1,876,872 |
| Expenses not involving cash payments : | | | | |
| Depreciation and amortization | 1,699,531 | 1,612,132 | 1,641,900 | 1,557,465 |
| Provision for severance indemnities | 52,487 | 59,757 | 50,707 | 57,731 |
| Allowance for doubtful accounts | 34,797 | 20,455 | 33,617 | 19,761 |
| Foreign translation loss | 736 | 145 | 711 | 140 |
| Loss on disposal and impairment of property, equipment and intangible assets | 18,344 | 12,816 | 17,722 | 12,381 |
| Loss on impairment of long-term investment securities | 32,074 | 20,343 | 30,986 | 19,653 |
| Loss on disposal of investment assets | 810 | 45,175 | 783 | 43,643 |
| Equity in losses of affiliates | | 30,537 | | 29,501 |
| Loss on transaction and valuation of currency swap | 15,819 | | 15,283 | |
| Amortization of discounts on bonds and other | 45,254 | 71,932 | 43,719 | 69,494 |
| Sub-total | 1,899,852 | 1,873,292 | 1,835,428 | 1,809,769 |
| Income not involving cash receipts : | | | | |
| Foreign translation gain | (365) | (605) | (353) | (584) |
| Reversal of allowance for doubtful accounts | (284) | (7) | (274) | (7) |
| Gain on disposal of property and equipment | (2,054) | (2,709) | (1,984) | (2,617) |
| Equity in earnings of affiliates | (53,825) | | (52,000) | |
| Gain on transaction of currency swap | (2,850) | | (2,753) | |
| Other | (3,846) | (11,782) | (3,716) | (11,383) |
| Sub-total | (63,224) | (15,103) | (61,080) | (14,591) |
| Changes in assets and liabilities related to operating activities : | | | | |
| Accounts receivable trade | (146,726) | (167,845) | (141,751) | (162,153) |
| Accounts receivable other | (566,411) | (35,879) | (547,204) | (34,662) |
| Inventories | (3,114) | 2,694 | (3,008) | 2,603 |
| Accrued income and other | (13,212) | (54,380) | (12,764) | (52,536) |

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|---|-----------|-----------|-----------|-----------|
| Accounts payable | (46,886) | (473,574) | (45,296) | (457,515) |
| Income taxes payable | (131,813) | 17,064 | (127,343) | 16,485 |
| Accrued expenses | (22,941) | 43,015 | (22,163) | 41,556 |
| Current portion of facility deposits | 2,580 | (3,377) | 2,493 | (3,262) |
| Other current liabilities | 21,880 | 55,510 | 21,138 | 53,627 |
| Deferred income taxes | 80,797 | 117,474 | 78,057 | 113,490 |
| Severance indemnity payments | (26,728) | (22,731) | (25,822) | (21,960) |
| | | | | |
| Sub-total | (852,574) | (522,029) | (823,663) | (504,327) |
| | | | | |
| Net Cash Provided by Operating Activities | 2,478,906 | 3,278,910 | 2,394,847 | 3,167,723 |

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SK TELECOM CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2004 AND 2003

| | In millions of Korean won | | In thousands of U.S. dollars (Note 2) | |
|--|---------------------------|-----------------|--|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| : | | | | |
| Cash inflows from investing activities : | | | | |
| Decrease in short-term financial instruments | W 92,813 | W | \$ 89,666 | \$ |
| Decrease in trading securities | 220,849 | | 213,360 | |
| Decrease in current portion of long-term investment securities | 85,861 | 70,267 | 82,949 | 67,884 |
| Decrease in short-term loans | 86,359 | 45,682 | 83,431 | 44,133 |
| Decrease in long-term financial instruments | 50,000 | 3 | 48,305 | 3 |
| Proceeds from sales of long-term investment securities | 17,390 | 756,434 | 16,800 | 730,783 |
| Proceeds from sales of equity securities accounted for using the equity method | 2,710 | 3,440 | 2,618 | 3,323 |
| Decrease in long-term loans | | 394 | | 381 |
| Decrease in guarantee deposits | 19,513 | 44,020 | 18,851 | 42,527 |
| Decrease in other non-current assets | 36,287 | 50,758 | 35,057 | 49,038 |
| Proceeds from disposal of property and equipment | 9,853 | 11,726 | 9,519 | 11,328 |
| Proceeds from disposal of intangible assets | 2,292 | 2,248 | 2,214 | 2,172 |
| Sub-total | 623,927 | 984,972 | 602,770 | 951,572 |
| Cash outflows for investing activities : | | | | |
| Increase in short-term financial instruments | | (12,705) | | (12,274) |
| Increase of trading securities | | (194,514) | | (187,918) |
| Increase in short-term loans | (49,892) | (50,870) | (48,200) | (49,145) |
| Increase in long-term financial instruments | (60,003) | | (57,968) | |
| Acquisition of long-term investment securities | (52,266) | (430,660) | (50,494) | (416,056) |
| Acquisition of equity securities accounted for using the equity method | (130,240) | (151,648) | (125,824) | (146,506) |
| Increase in long-term loans | (27,416) | | (26,486) | |
| Increase in guarantee deposits and other non-current assets | (97,704) | (117,900) | (94,391) | (113,903) |
| Acquisition of property and equipment | (1,570,002) | (1,611,209) | (1,516,764) | (1,556,573) |
| Increase in intangible assets | (57,627) | (46,526) | (55,673) | (44,948) |
| Sub-total | (2,045,150) | (2,616,032) | (1,975,800) | (2,527,323) |
| Net Cash Used in Investing Activities | (1,421,223) | (1,631,060) | (1,373,030) | (1,575,751) |

(Continued)

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SK TELECOM CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2004 AND 2003

| | In millions of Korean won | | In thousands of U.S. dollars (Note 2) | |
|---|---------------------------|-----------------|--|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| CASH FLOWS FROM FINANCING ACTIVITIES : | | | | |
| Cash inflows from financing activities : | | | | |
| Increase in short-term borrowings | W | W 108,669 | \$ | \$ 104,984 |
| Issuance of bonds | 1,205,727 | 688,737 | 1,164,841 | 665,382 |
| Transaction of currency swap | 2,850 | | 2,753 | |
| Other | 13,496 | 23,932 | 13,039 | 23,120 |
| Sub-total | 1,222,073 | 821,338 | 1,180,633 | 793,486 |
| Cash outflows for financing activities : | | | | |
| Repayment of short-term borrowings | (328,669) | | (317,524) | |
| Repayment of current portion of long-term debt | (1,370,036) | (924,180) | (1,323,578) | (892,841) |
| Payment of dividends | (478,318) | (151,739) | (462,098) | (146,594) |
| Decrease in subscription deposits | (12,757) | (2,654) | (12,324) | (2,564) |
| Acquisition of treasury stock | (2) | (1,379,337) | (2) | (1,332,564) |
| Transaction of currency forward | (29) | | (28) | |
| Other | (5,372) | (32,337) | (5,191) | (31,240) |
| Sub-total | (2,195,183) | (2,490,247) | (2,120,745) | (2,405,803) |
| Net Cash Used in Financing Activities | (973,110) | (1,668,909) | (940,112) | (1,612,317) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS FROM THE MERGED ENTITY (Note 24) | | | | |
| | | 43,224 | | 41,758 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | | | |
| | 84,573 | 22,165 | 81,705 | 21,413 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | | | |
| | 28,393 | 6,228 | 27,430 | 6,017 |
| | W 112,966 | W 28,393 | \$ 109,135 | \$ 27,430 |

CASH AND CASH EQUIVALENTS AT END OF
THE YEAR

See accompanying notes to non-consolidated financial statements.

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SK TELECOM CO., LTD.
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004 AND 2003

1. GENERAL

SK Telecom Co., Ltd. (the Company) was incorporated in March 1984 under the laws of Korea to engage in providing nationwide cellular telephone communication services in the Republic of Korea. The Company's common shares and depositary receipts (DRs) are listed on the Korea Stock Exchange and the New York and London Stock Exchanges, respectively. As of December 31, 2004, the Company's total issued shares are held by the following :

| | Number of shares | Percentage of total shares issued (%) |
|---|---------------------|---|
| SK Group | 19,772,914 | 24.03 |
| POSCO Corp. | 4,098,496 | 4.98 |
| Institutional investors and other minority shareholders | 49,742,886 | 60.46 |
| Treasury stock | 8,662,415 | 10.53 |
| | 82,276,711 | 100.00 |

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying non-consolidated financial statements of the Company have been prepared in accordance with Korean Financial Accounting Standards and Statements of Korea Accounting Standards (SKAS) No.1 through No.10, No.12 and No.13 and significant accounting policies followed in preparing the accompanying non-consolidated financial statements are summarized as follows. The accompanying non-consolidated financial statements were approved by the Company's board of directors on January 26, 2005.

a. Basis of Presentation

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

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The official accounting records of the Company are maintained and expressed in Korean won, the currency of the country in which the Company is incorporated and operates. The translations of Korean won amounts into U.S. dollar amounts in the accompanying non-consolidated financial statements are included solely for the convenience of readers outside of Korea and have been made at the rate of W1,035.1 to US\$1, the Noon Buying Rate in the City of New York for cable transfers in Korean won as certified for customs purposes by the Federal Reserve Bank of New York on the last business day of the year ended December 31, 2004. Such translations into U.S. dollars should not be construed as representations that the Korean won amounts could be converted into U.S. dollars at the above or any other rate.

b. Allowance for Doubtful Accounts

An allowance for doubtful accounts is maintained based on the estimated collectibility of individual accounts and historical bad debt experience.

c. Inventories

Inventories, which consist mainly of replacement units for wireless telecommunication facilities and supplies for sales promotion, are stated at the lower of cost or market value, with cost determined using the moving average method. During the year, perpetual inventory systems are used to value inventories, which are adjusted to physical inventory counts performed at the end of the year. When the market value of inventories is less than the acquisition cost, the carrying amount shall be reduced to the market value and any difference is charged to current operations as operating expenses. There was no such loss for the years ended December 31, 2004 and 2003.

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

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

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

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

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

Trading securities are presented in the current asset section of the balance sheet, and available-for-sales and held-to-maturity securities are presented in the current and/or non-current asset section of the balance sheet as

long-term investment securities, based on their maturities from the balance sheet date.

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e. Investment Securities with 20% or More Ownership Interest

Investment securities of affiliated companies, in which the Company has a 20% or more ownership interest, are carried using the equity method of accounting, whereby the Company's initial investment is recorded at cost and the carrying value is subsequently increased or decreased to reflect the Company's portion of shareholders equity of the investee. Differences between the purchase cost and net asset value of the investee are amortized over 20 years using the straight-line method. When applying the equity method of accounting, unrealized intercompany gains and losses are eliminated and the effect of eliminations is reflected in the investment securities account.

f. Property and Equipment

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

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

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

g. Intangible Assets

Intangible assets are stated at cost, less amortization computed using the straight-line method over 5 to 20 years. The amortization for the years ended December 31, 2004 and 2003 were W317,394 million and W202,449 million, respectively.

With its application for a license to provide IMT 2000 service, the Company has a commitment to pay W1,300,000 million to the Ministry of Information Communication (MIC). W650,000 million was paid in March 2001 by SK IMT Co., Ltd. (a former subsidiary of the Company), which was merged into the Company on May 1, 2003, and the remainder is required to be paid over 10 years with an annual interest rate equal to the 3-year-maturity government bond rate minus 0.75% (3.20% as of December 31, 2004). On December 4, 2001, SK IMT Co., Ltd. received the IMT 2000 license from the MIC, and recorded the total license cost as an intangible asset. As a result of the merger with SK IMT Co., Ltd., the Company acquired such IMT license of W1,259,253 million and assumed the related long-term payable with a principal amount of W650,000 million on May 1, 2003 (the date of merger). Amortization of the IMT license commenced when the Company started its commercial IMT 2000 service in December 2003, using the straight-line method over the estimated useful life of the IMT license which expires in December 2016.

h. Convertible Bonds

The proceeds from issuance of convertible bonds are allocated between the conversion rights and the debt issued; the portion allocable to the conversion rights is accounted for as capital surplus with corresponding conversion right adjustment which is deducted from related bonds. Such conversion right adjustment is amortized to interest expense using the effective interest rate method over the redemption period of the convertible bonds. The portion allocable to the conversion rights is measured by deducting the present value of the debt at time of issuance from the gross proceeds from issuance of convertible bonds, with the present value

of the debt being computed by discounting the expected future cash flows (including call premium, if any) using the effective interest rate applied to ordinary or straight debt of the Company at the issue date.

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i. Discounts on Bonds

Discounts on bonds are amortized to interest expense using the effective interest rate method over the redemption period of the bonds and long-term payables.

j. Valuation of Long-term Payables

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

k. Accrued Severance Indemnities

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

The Company has deposits with insurance companies to fund the portion of the employees' severance indemnities which is in excess of the tax deductible amount allowed under the Corporate Income Tax Law, in order to take advantage of the additional tax deductibility for such funding. Such funding of severance indemnities in outside insurance companies, of which the beneficiary is its employees, totaling W155,228 million and W138,839 million as of December 31, 2004 and 2003, respectively, is deducted from accrued severance indemnities.

In accordance with the Korean National Pension Fund Law, the Company transferred a portion of its accrued severance indemnities to the Korean National Pension Fund through March 1999. Such transfers, amounting to W5,612 million and W6,148 million as of December 31, 2004 and 2003, respectively, are deducted from accrued severance indemnities.

Actual payment of severance indemnities amounted to W26,728 million and W22,731 million for the years ended December 31, 2004 and 2003, respectively.

l. Accounting for Employee Stock Option Compensation Plan

The Company adopted the fair value based method of accounting for its employee stock option compensation plan. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period. For stock options, fair value is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, expected dividends and the current risk-free interest rate for the expected life of the option. However, as permitted under Korean GAAP the Company excludes the volatility factor in estimating the value of its stock options granted before December 31, 2003, which results in measurement at minimum value. The total compensation cost of an option estimated at the grant date is not subsequently adjusted for changes in the price of the underlying stock or its volatility, the actual life of the option, dividends on the stock, or the risk-free interest rate.

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m. Accounting for Leases

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

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

n. Research and Development Costs

The Company charges substantially all research and development costs to expense as incurred. The Company incurred internal research and development costs of W203,741 million and W199,074 million for the years ended December 31, 2004 and 2003, respectively, and external research and development costs of W68,549 million and W64,419 million for the years ended December 31, 2004 and 2003, respectively.

o. Accounting for Foreign Currency Transactions and Translation

Transactions denominated in foreign currencies are recorded in Korean won translated at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Korean won at the Base Rates announced by Seoul Money Brokerage Services, Ltd. on the balance sheet date, which were, for US dollars, W1,043.80=US\$1 and W1,197.80=US\$1 at December 31, 2004 and 2003, respectively. The resulting gains or losses arising from the settlement of foreign currency transactions and the translation of foreign currency assets and liabilities are charged or credited to current operations.

p. Derivative Instruments

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

q. Revenue Recognitions

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

r. Income Taxes

Deferred tax assets and liabilities are recorded for future tax consequences of operating loss carryforwards, tax credits and temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized to the extent that they are expected to be realizable. Deferred tax assets and liabilities are presented on the balance sheet as a single non-current

net number.

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

On January 1, 2004, the Company adopted SKAS No.10, No.12 and No.13. Such adoptions of new SKAS did not have an effect on the non-consolidated financial position of the Company as of December 31, 2004 or non-consolidated ordinary income and net income of the Company for the year ended December 31, 2004.

t. Reclassification of Prior Period s Financial Statements

Certain reclassifications have been made in prior period s non-consolidated financial statements to conform to classifications used in the current period. Such reclassifications did not have an effect on the non-consolidated financial positions of the Company as of December 31, 2003 or non-consolidated ordinary income and net income for the year ended December 31, 2003.

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

Trading securities as of December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | 2004 | | | 2003 | | |
|--------------------------|------------------|------------|-----------------|------------------|------------|-----------------|
| | Acquisition cost | Fair value | Carrying amount | Acquisition cost | Fair value | Carrying amount |
| Beneficiary certificates | W640,389 | W640,389 | W640,389 | W860,778 | W858,739 | W858,739 |

b. Long-term Investment Securities

Long-term investment securities as of December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | 2004 | 2003 |
|--------------------------------------|----------|----------|
| Available-for-sale equity securities | W872,209 | W800,790 |
| Available-for-sale debt securities | 4,928 | 13,919 |
| Held-to-maturity securities | 50,000 | 126,347 |
| Total | 927,137 | 941,056 |
| Less current portion | (3,600) | (85,861) |
| Long-term portion | W923,537 | W855,195 |

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

Available-for-sale equity securities as of December 31, 2004 and 2003 are as follows (in millions of Korean won, except for share data) :

| | Ownership Acquisition | | Fair value | Unrealized | Carrying amount | |
|---|-----------------------|-----------------------|------------|-------------------|------------------|------------------------------|
| | percentage (%) | cost at Dec. 31, 2004 | | | at Dec. 31, 2004 | gain (loss) at Dec. 31, 2004 |
| (Investments in listed companies) | | | | | | |
| Digital Chosunilbo Co., Ltd. | 7.8 | W 5,781 | W 2,023 | W (3,758)(note a) | W 2,023 | W 2,847 |
| Hanaro Telecom Inc. | 4.8 | 121,677 | 71,019 | (50,658)(note a) | 71,019 | 26,838 |
| Korea Radio Wave Basestation Management POSCO Corporation | 4.5 | 1,171 | 2,178 | 1,007(note a) | 2,178 | 2,669 |
| INNOTG Co., Ltd. | 2.7 | 332,662 | 464,005 | 131,343(note a) | 464,005 | 404,454 |
| SINJISOFT Corporation | 3.9 | 1,695 | 152 | (1,543)(note a) | 152 | |
| | 2.3 | 130 | 590 | 460(note a) | 590 | |
| sub-total | | 463,116 | | 76,851 | 539,967 | 436,808 |
| (Investments in non-listed companies) | | | | | | |
| Powercomm Co., Ltd. | 5.0 | 240,243 | 71,565 | (168,678)(note b) | 71,565 | 68,407 |
| Japan MBCO Real Telecom Co., Ltd. | 7.3 | 27,332(note d) | | | 27,332 | 42,516 |
| Enterprise Networks Co., Ltd. | 8.3 | 5,981 | | (note c) | | 5,981 |
| Eonex Technologies Inc. | 4.0 | 14,438 | | (note c) | | 14,438 |
| Widerthan. Co., Ltd. | 14.1 | 3,600(note d) | | 2,010 | 4,593 | 4,593 |
| Others | 14.3 | 1,000(note d) | | (27) | 3,188 | 3,166 |
| | | 95,186(note d) | | (note e) | 29,158 | 27,964 |
| sub-total | | 387,780 | | (166,693) | 135,836 | 167,065 |

(Investments in funds)

| | | | |
|---------------|-----------------|------------|---------------------|
| Korea IT Fund | 190,000(note d) | 190,000 | 190,000 |
| Others | 6,406(note d) | 6,406 | 6,917 |
| sub-total | 196,406 | 196,406 | 196,917 |
| Total | | W (89,842) | W 872,209 W 800,790 |

- (note a) The net unrealized gain on investments in common stock of Digital Chosunilbo Co., Ltd., Hanaro Telecom Inc., Korea Radio Wave Basestation Management, POSCO Corporation, INNOTG Co., Ltd. and SINJISOFT Corporation as of December 31, 2004, totaling W76,851 million, and the net unrealized loss on investments in common stock of Digital Chosunilbo Co., Ltd., Hanaro Telecom, Inc., Korea Radio Wave Basestation Management and POSCO Corporation as of December 31, 2003, totaling W14,888 million, were recorded as a capital adjustment.
- (note b) The Company recorded its investments in common stock of Powercomm Co., Ltd. at its fair value, which was estimated by an outside professional valuation company using the present value of expected future cash flows and the unrealized loss on valuation of investments amounting to W168,678 million and W171,836 million as of December 31, 2004 and 2003, respectively, were recorded as a capital adjustment.
- (note c) Due to the impairment of the Company's investments in common stock of Real Telecom Co., Ltd. and Enterprise Networks Co., Ltd., the Company recorded impairment losses of W20,419 million for the year ended December 31, 2004.
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(note d) As a reasonable estimate of fair value could not be made, the investment is stated at acquisition cost. The investments in common stock of Eonex Technologies Inc. and Widerthan. Co., Ltd. were reclassified to available-for-sale equity from equity securities accounted for using the equity method during 2003 and 2004, respectively, as the Company's ownership in such investees decreased to less than 20%. As a result, the carrying value of the investments in such investees include the accumulated effect resulted from applying the equity method before reclassification to available-for-sale equity.

(note e) Due to the impairment of the Company's investments in common stock of Mobilewelcom Co., Ltd. in 2004 and CCK Van, Biznet Tech, Hanse Telecom, Cybird Korea and Venture Korea in 2003, the Company recorded impairment losses of W1,000 million and W3,926 million recorded for the years ended December 31, 2004 and 2003, respectively.

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

Available-for-sale debt securities as of December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | Maturity | Acquisition cost at Dec. 31, 2004 | Carrying amount | |
|---|----------------|--|-----------------|---------|
| | (note a) | | 2004 | 2003 |
| Public bonds | | W 1,328 | W 1,328 | W 805 |
| Convertible bonds of Real Telecom Co., Ltd. (note b) | March, 2007 | 10,656 | | 9,514 |
| Convertible bonds of Eonex Technologies, Inc.(3 rd) (note c) | January, 2005 | 3,600 | 3,600 | 3,600 |
| Total | | | 4,928 | 13,919 |
| Less current portion of available-for-sale debt securities | | | (3,600) | (9,514) |
| Long-term available-for-sale debt securities | | | W 1,328 | W 4,405 |

(note a) The maturities of public bonds as of December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| Maturity | 2004 | 2003 |
|-------------------|---------|-------|
| Within five years | W 904 | W 738 |
| Within ten years | 424 | 67 |
| | W 1,328 | W 805 |

(note b) The convertible bonds of Real Telecom Corp. with a principal amount of W10,656 million can be converted into 371,018 shares of common stock of Real Telecom Corp. at W28,721 per share over the period from September 29, 2004 to March 28, 2007. If such bonds are converted, the Company's equity interest in Real Telecom Corp. will increase to 14.8%. Meanwhile, due to the impairment in

such bonds, the Company recorded an impairment loss of W10,656 million for the year ended December 31, 2004.

- (note c) The convertible bonds of Eonex Technologies, Inc. (3rd) with a principal amount of W3,600 million can be converted into 48,000 shares of common stock of Eonex Technologies, Inc. at W75,000 per share over the period from July 30, 2003 to January 29, 2005. If such bonds are converted, the Company's equity interest in Eonex Technologies, Inc. will increase to 20.4%.
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Table of Contents**b-(3). Held-to-maturity Securities**

Held-to-maturity securities as of December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | Maturity | Acquisition cost at Dec. 31, 2004 | 2004 | 2003 |
|---|-----------------|--|----------|----------|
| Subordinated bonds of SK Life Insurance Co., Ltd. | April, 2006 | W 50,000 | W 50,000 | W 50,000 |
| Subordinated bonds of Nate Third Special Purpose Company | May, 2004 | | | 27,464 |
| Subordinated bonds of Nate Fourth Special Purpose Company | September, 2004 | | | 25,393 |
| Subordinated bonds of Nate Fifth Special Purpose Company | December, 2004 | | | 23,490 |
| Total | | | 50,000 | 126,347 |
| Less current portion of held-to-maturity securities | | | | (76,347) |
| Long-term held-to-maturity securities | | | W 50,000 | W 50,000 |

On May 2, 2003, September 4, 2003 and December 15, 2003, the Company sold W577,253 million, W549,256 million and W498,426 million, respectively, of accounts receivable resulting from its mobile phone dealer financing plan to Nate Third Special Purpose Company, Nate Fourth Special Purpose Company and Nate Fifth Special Purpose Company, respectively, in asset-backed securitization transactions. In the course of these transactions, the Company acquired subordinate bonds issued by such special purpose companies, in order to supplement the creditworthiness of bonds issued by them. Subordinated bonds of Nate Third Special Purpose Company, Nate Fourth Special Purpose Company and Nate Fifth Special Purpose Company were all collected in 2004.

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

Equity securities accounted for using the equity method as of December 31, 2004 and 2003 are as follows (in millions of Korean won, except for share data) :

| | Number of shares | Ownership Percentage (%) | Acquisition Cost | Net Asset Value | Carrying Amount | |
|--|---------------------|--------------------------------|---------------------|--------------------|-----------------|-----------|
| | | | | | 2004 | 2003 |
| SK Teletch Co., Ltd. | 6,747,421 | 89.1 | W 80,491 | W 187,610 | W 190,896 | W 104,340 |
| SK Capital Co., Ltd. | 10,000,000 | 100.0 | 50,000 | 34,891 | 34,891 | 45,865 |
| SK Communications Co., Ltd. | 7,844,454 | 92.2 | 175,441 | 118,157 | 143,096 | 120,706 |
| SK Telink Co., Ltd. | 943,997 | 90.8 | 5,296 | 56,182 | 56,182 | 43,452 |
| SK C&C Co., Ltd. | 300,000 | 30.0 | 19,071 | 196,077 | 201,353 | 93,433 |
| SK Wyverns Baseball Club Co., Ltd. | 199,997 | 100.0 | 1,000 | (note a) | | |
| STIC Ventures Co., Ltd. | 1,600,000 | 24.1 | 8,000 | 7,321 | 7,321 | 7,098 |
| Paxnet Co., Ltd. | 5,590,452 | 67.1 | 26,563 | 5,934 | 25,244 | 25,712 |
| VCASH Co., Ltd. | | | | (note b) | | 942 |
| Global Credit & Information Corp. | 300,000 | 50.0 | 2,410 | 2,384 | 3,054 | 2,773 |
| TU Media Corp. | 7,800,000 | 28.5 | 39,000 | 34,607 | 34,607 | 39,000 |
| Aircross Co., Ltd. | 600,000 | 38.1 | 300 | 944 | 944 | 300 |
| DSS Mobile Communications Ltd. | | | | (note a) | | |
| SLD Telecom PTE. Ltd. | 75,941,700 | 55.1 | 89,203 | 59,376 | 59,804 | 24,701 |
| Skytel Co., Ltd. | 1,756,000 | 28.6 | 2,159 | 3,633 | 3,633 | 3,053 |
| SK China Company Ltd. | 28,160 | 20.7 | 3,195 | 803 | 803 | 2,187 |
| SK Telecom International, Inc. | 1,099 | 100.0 | 17,467 | 21,995 | 21,995 | 18,963 |
| SK Telecom China Co., Ltd. | 6,150,000 | 100.0 | 7,340 | 9,212 | 9,212 | 7,340 |
| Centurion IT Investment Association | | 37.5 | 3,000 | 3,205 | 3,205 | 3,126 |
| SK-QC Wireless Development Fund | | 50.0 | 6,540 | 5,145 | 5,145 | 5,906 |
| SKT-HP Ventures, LLC | | 50.0 | 6,415 | 5,284 | 5,284 | 5,964 |
| Other investments in affiliates | | | 20,077 | (note c) | 19,577 | 8,678 |
| Total | | | | | W 826,246 | W 563,539 |

(note a) SK Wyverns Baseball Club Co., Ltd. has had a negative capital since December 31, 2001 due to accumulated losses. DSS Mobile Communication Ltd., an Indian company, has had a negative capital since March 31, 1998 and the investments in common stock of DSS Mobile Communications Ltd. were sold in 2004.

(note b)

The investments in common stock of VCASH Co., Ltd. were sold to Korea Railway Transportation Promotion Foundation in 2004.

(note c) As allowed under Korean GAAP, investments in equity securities of SK Telecom Europe Limited and certain others were not accounted for using the equity method of accounting, as their total assets at December 31, 2003 were less than W7 billion.

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Details of the changes in investments in affiliates accounted for using the equity method for the years ended December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | Beginning balance or acquisition cost | For the year ended December 31, 2004 | | | Ending balance |
|-------------------------------------|---|--------------------------------------|-------------------------------------|----------------------|-------------------|
| | | Equity in earnings (losses) | Equity in capital adjustments | Decrease or other | |
| SK Teletech Co., Ltd. (note a) | W 159,275 | W 32,788 | W | W (1,167) | W 190,896 |
| SK Capital Co., Ltd. | 45,865 | (11,515) | 541 | | 34,891 |
| SK Communications Co., Ltd | 127,486 | 11,961 | 3,649 | | 143,096 |
| SK Telink Co., Ltd. | 43,452 | 12,724 | 6 | | 56,182 |
| SK C&C Co., Ltd. (note a) | 93,433 | 14,563 | 93,957 | (600) | 201,353 |
| STIC Ventures Co., Ltd. | 7,098 | 151 | 72 | | 7,321 |
| Paxnet Co., Ltd. | 25,712 | (515) | 47 | | 25,244 |
| VCASH Co., Ltd. (note b) | 943 | (600) | | (343) | |
| Global Credit & Information Corp. | 2,773 | 281 | | | 3,054 |
| Widerthan. Co., Ltd. (note c) | 3,166 | 49 | (27) | (3,188) | |
| TU Media Corp. | 39,000 | (4,732) | 339 | | 34,607 |
| Aircross Co., Ltd. | 300 | 663 | (19) | | 944 |
| SLD Telecom PTE. Ltd. | 78,131 | (11,064) | (7,263) | | 59,804 |
| Skytel Co., Ltd. (note a) | 3,053 | 1,177 | (421) | (176) | 3,633 |
| SK China Company, Ltd. | 2,187 | (1,198) | (186) | | 803 |
| SK Telecom International, Inc. | 18,963 | 6,037 | (3,005) | | 21,995 |
| SK Telecom China Co., Ltd. | 7,340 | 2,886 | (1,014) | | 9,212 |
| Centurion IT investment Association | 3,125 | 80 | | | 3,205 |
| SKT-QC Wireless Development Fund | 5,906 | (2) | (759) | | 5,145 |
| SKT-HP Ventures, LLC | 5,964 | 91 | (771) | | 5,284 |
| | W 673,172 | W 53,825 | W 85,146 | W (5,474) | W 806,669 |

(note a) The Company received dividends from SK Teletech Co., Ltd., SK C&C Co., Ltd. and Skytel Co., Ltd. and the corresponding amount was deducted from its equity method securities.

(note b) The investments in common stock of VCASH Co., Ltd. were sold to Korea Railway Transportation Promotion Foundation in 2004.

(note c) Investments in common stock of Widerthan. Co., Ltd. were reclassified to available-for-sale securities as the Company's ownership in Widerthan. Co., Ltd. decreased from 20.0% to 14.3% during 2004.

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| | For the year ended December 31, 2003 | | | | | |
|--|---|-----------------------------------|-------------------------------------|--|----------------------------------|-------------------|
| | Beginning balance or acquisition cost | Equity in earnings (losses) | Equity in capital adjustments | Equity in retained earning (note b) | Dividend received or other | Ending balance |
| SK Teletech Co., Ltd. (note c) | W 87,286 | W 19,387 | W | W | W (2,333) | W 104,340 |
| SK Capital Co., Ltd. | 57,535 | (6,978) | (3,176) | (1,516) | | 45,865 |
| SK Communications Co., Ltd | 160,751 | (36,840) | (3,205) | | | 120,706 |
| SK Telink Co., Ltd. | 36,395 | 7,057 | | | | 43,452 |
| SK C&C Co., Ltd. (note c) | 53,971 | (4,528) | 44,590 | | (600) | 93,433 |
| STIC Ventures Co., Ltd. | 7,648 | (675) | 128 | (3) | | 7,098 |
| Paxnet Co., Ltd. | 26,563 | (804) | (47) | | | 25,712 |
| VCASH Co., Ltd. | 2,007 | (1,217) | 179 | (27) | | 942 |
| Eonex Technologies, Inc. (note e) | 4,618 | (26) | | | (4,592) | |
| Global Credit & Information Corp. | 2,477 | 296 | | | | 2,773 |
| Widerthan. Co., Ltd. | 1,665 | 1,498 | 3 | | | 3,166 |
| SLD Telecom PTE. Ltd. | 34,566 | (9,771) | 22 | (116) | | 24,701 |
| Skytel Co., Ltd. | 2,784 | 533 | (264) | | | 3,053 |
| SK China Co., Ltd. | 3,500 | (1,317) | 4 | | | 2,187 |
| SK Telecom International Inc. | 13,693 | 6,371 | (1,101) | | | 18,963 |
| Centurion IT investment association | 3,064 | 62 | | | | 3,126 |
| SK-QC Wireless Development Fund | 5,979 | (58) | (15) | | | 5,906 |
| SKT-HP Ventures, LLC (note a) | 6,415 | (25) | (426) | | | 5,964 |
| SK IMT Co., Ltd. (note d) | 1,014,647 | (3,502) | | (817) | (1,010,328) | |
| | W 1,525,564 | W (30,537) | W 36,692 | W (2,479) | W (1,017,853) | W 511,387 |

(note a) Investments in equity securities are carried using the equity method of accounting, based on the financial statements as of June 30, 2003, as the information as of December 31, 2003 was not available.

(note b) Effective January 1, 2003, the Company's investees including SK Capital Co., Ltd., STIC Ventures Co., Ltd., VCASH Co., Ltd., SLD Telecom PTE. Ltd., and SK IMT Co., Ltd., adopted SKAS No.3, Intangible Assets. This statement requires that organization cost be charged to expenses as incurred and the unamortized organization costs at January 1, 2003 be offset against the beginning retained earnings. To reflect the Company's portion of the decrease in the beginning retained earnings of the investees, the

Company reduced its beginning retained earnings of 2003.

Table of Contents**5. LOANS TO EMPLOYEES**

Short-term and long-term loans to employees as of December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | 2004 | | | 2003 |
|--|------------|-----------|---------|---------|
| | Short-term | Long-term | Total | |
| Loans to employees stock ownership association | W4,122 | W18,423 | W22,545 | W33,788 |
| Loans to employees for housing and other | 111 | 502 | 613 | 769 |
| | W4,233 | W18,925 | W23,158 | W34,557 |

6. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | Useful lives (years) | 2004 | | 2003 | |
|-------------------------------|----------------------------|-------------|--|-------------|--|
| | | W | | W | |
| Land | | 463,656 | | 446,574 | |
| Buildings and structures | 30,15 | 1,441,937 | | 1,077,479 | |
| Machinery | 6 | 9,452,751 | | 8,348,633 | |
| Vehicles | 4 | 20,268 | | 18,860 | |
| Other | 4 | 721,032 | | 743,219 | |
| Construction in progress | | 138,002 | | 309,564 | |
| | | 12,237,646 | | 10,944,329 | |
| Less accumulated depreciation | | (7,632,393) | | (6,392,703) | |
| Property and equipment, net | | W 4,605,253 | | W 4,551,626 | |

The standard value of land declared by the government as of December 31, 2004 and 2003 are W401,771 million and W393,683 million, respectively.

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Details of change in property and equipment for the years ended December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | For the year ended December 31, 2004 | | | | | | Ending balance |
|--------------------------|--------------------------------------|--------------------|-------------------|--------------------|----------------------|--------------------|-------------------|
| | Beginning balance | Acquisition | Disposal | Transfer | Depreciation | | |
| Land | W 446,574 | W 3,394 | W (2,684) | W 16,372 | W | W 463,656 | |
| Buildings and structures | 840,237 | 7,239 | (7,849) | 366,296 | (42,854) | 1,163,069 | |
| Machinery | 2,625,306 | 67,408 | (7,659) | 1,143,443 | (1,243,380) | 2,585,118 | |
| Vehicles | 3,836 | 2,957 | (333) | 695 | (3,125) | 4,030 | |
| Other | 326,109 | 720,431 | (5,267) | (697,118) | (92,778) | 251,377 | |
| Construction in progress | 309,564 | 768,573 | (756) | (939,378) | | 138,003 | |
| Total | W 4,551,626 | W 1,570,002 | W (24,548) | W (109,690) | W (1,382,137) | W 4,605,253 | |

| | For the year ended December 31, 2003 | | | | | | Ending balance |
|--------------------------|--------------------------------------|--------------------|--|-------------------|-------------------|----------------------|--------------------|
| | Beginning balance | Acquisition | Increase from the merged entity, SK IMT | Disposal | Transfer | Depreciation | |
| Land | W 439,915 | W 3,380 | W 198 | W (4,793) | 7,874 | W | W 446,574 |
| Buildings and structures | 778,832 | 5,562 | 175 | (4,599) | 100,340 | (40,073) | 840,237 |
| Machinery | 2,432,552 | 106,811 | | (4,034) | 1,359,890 | (1,269,913) | 2,625,306 |
| Vehicles | 6,095 | 771 | 15 | (104) | 18 | (2,959) | 3,836 |
| Other | 449,091 | 851,183 | 523 | (3,278) | (874,672) | (96,738) | 326,109 |
| Construction in progress | 345,063 | 643,502 | 8,555 | | (687,556) | | 309,564 |
| Total | W 4,451,548 | W 1,611,209 | W 9,466 | W (16,808) | W (94,106) | W (1,409,683) | W 4,551,626 |

7. INTANGIBLE ASSETS

Intangible assets as of December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | 2004 | | 2003 | |
|----------------------------|---------------------|-----------------------------|---------------------|---------------------|
| | Acquisition cost | Accumulated amortization | Carrying amounts | Carrying amounts |
| Goodwill | W 2,335,532 | W (385,986) | W 1,949,546 | W 2,078,208 |
| Frequency use rights | 1,267,053 | (103,734) | 1,163,319 | 1,251,278 |
| Software development costs | 221,278 | (120,699) | 100,579 | 133,833 |
| Other | 445,359 | (210,184) | 235,175 | 136,949 |
| | W 4,269,222 | W (820,603) | W 3,448,619 | W 3,600,268 |

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Details of changes in intangible assets for the years ended December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | Beginning balance | For the year ended December 31, 2004 | | | | Ending balance |
|----------------------------|----------------------|--------------------------------------|-----------|-----------|--------------|-------------------|
| | | Increase | Decrease | Transfer | Amortization | |
| Goodwill | W 2,078,208 | W | W | W | W (128,662) | W 1,949,546 |
| Frequency use rights | 1,251,278 | | | 7,800 | (95,759) | 1,163,319 |
| Software development costs | 133,833 | 3,431 | (3,094) | 10,545 | (44,136) | 100,579 |
| Other | 136,949 | 54,196 | (792) | 93,659 | (48,837) | 235,175 |
| | W 3,600,268 | W 57,627 | W (3,886) | W 112,004 | W (317,394) | W 3,448,619 |

| | Beginning balance | Increase | For the year ended December 31, 2003 | | | | Ending balance |
|----------------------------|----------------------|----------|---|-----------|-----------|--------------|-------------------|
| | | | Increase from the merged entity, SK IMT | Decrease | Transfer | Amortization | |
| Goodwill | W 2,206,870 | W | W | W | W | W (128,662) | W 2,078,208 |
| Frequency use rights | | | 1,259,253 | | | (7,975) | 1,251,278 |
| Software development costs | 88,303 | 25,163 | | | 56,381 | (36,014) | 133,833 |
| Other | 95,177 | 21,363 | 318 | (7,274) | 57,163 | (29,798) | 136,949 |
| | W 2,390,350 | W 46,526 | W 1,259,571 | W (7,274) | W 113,544 | W (202,449) | W 3,600,268 |

The book value as of December 31, 2004 and residual useful lives of major intangible assets are as follows (in millions of Korean won) :

| | Amount | Description | Residual useful lives |
|-------------------|-------------|--|--------------------------|
| Goodwill | W 1,949,546 | Goodwill related to acquisition of Shinsegi Telecomm, Inc. | 16 years |
| IMT license | 1,155,575 | Relating to W-CDMA Service | (note) |
| Development costs | 100,579 | Software for business use | 1 ~ 5 years |

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

Table of Contents**8. BONDS PAYABLE**

Bonds payable as of December 31, 2004 and 2003 are as follows (in millions of Korean won and thousands of U.S. dollars) :

| | Maturity year | Annual interest | | 2004 | 2003 |
|---|------------------|--------------------|------|------------|-------------|
| | | rate (%) | | | |
| Domestic general bonds | 2004 | 5.0 | 7.0 | W | W1,120,000 |
| | 2005 | | 6.0 | 500,000 | 500,000 |
| | 2006 | 5.0 | 6.0 | 800,000 | 800,000 |
| | 2007 | 5.0 | 6.0 | 700,000 | 700,000 |
| | 2008 | | 5.0 | 300,000 | 300,000 |
| | 2009 | | 5.0 | 300,000 | |
| | 2011 | | 3.0 | 200,000 | |
| Dollar denominated bonds (US\$200,078) | 2004 | | 7.75 | | 239,653 |
| (US\$300,000) | 2011 | | 4.25 | 313,140 | |
| Convertible bonds (US\$329,450) | 2009 | | | 385,885 | |
| Total | | | | 3,499,025 | 3,659,653 |
| Less discounts on bonds | | | | (51,467) | (47,495) |
| Less conversion right adjustments | | | | (82,245) | |
| Add long-term accrued interest | | | | 24,808 | |
| Net | | | | 3,390,121 | 3,612,158 |
| Less portion due within one year | | | | (498,278) | (1,355,514) |
| Long-term portion | | | | W2,891,843 | W2,256,644 |

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

On May 27, 2004, the Company issued zero coupon convertible bonds with a maturity of five years in the principal amount of US\$329,450,000 for US\$324,923,469, with an initial conversion price of W235,625 per share of the Company's common stock, subject to certain redemption right. The Company may redeem their principal amount after 3 years from the issuance date if the market price exceeds 130% of the conversion price during predetermined period. In other hand, the bond holders may redeem their notes at 103.81% of the principal amount on May 27, 2007 (3 years from the issuance date). The conversion right may be exercised during the period from July 7, 2004 to May 13, 2009 and the number of common shares to be converted as of December 31, 2004 is 1,644,978 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 this 49% ownership limitation is violated due to the exercise of conversion rights. In this case, the Company will pay a bond holder a cash settlement determined at the average price of one day after a holder exercises its conversion right or the weighted average price for the following five business days. The Company intends to sell treasury shares held in trust by the Company that corresponds to the number of shares of common stock that would have been delivered in the absence of the 49% foreign shareholding restrictions. The Company entered into an agreement with Credit Suisse First Boston International to fix its exposure with respect

to cash settlement payments which may be more or less than the proceeds from sales of treasury shares held in trust. Unless either previously redeemed or converted, the notes are redeemable at 106.43% of the principal amount at maturity.

Table of Contents**9. LONG-TERM BORROWINGS**

Long-term borrowings denominated in foreign currency as of December 31, 2004 and 2003 are as follows (in millions of Korean won and thousands of U.S. dollars) :

| Lender | Final maturity year | Annual interest rate (%) | 2004 | 2003 |
|----------------------------------|---------------------|--------------------------|------|------------|
| Korea Development Bank | 2004 | 3M Libor + 3.45 | US\$ | US\$ 4,478 |
| Woori Bank | 2005 | Floating rate + 0.2 | | 4,089 |
| Total in foreign currency | | | US\$ | US\$ 8,567 |
| Equivalent in Korean won | | | W | W 10,262 |
| Less portion due within one year | | | | (8,629) |
| Long-term portion | | | W | W 1,633 |

10. SUBSCRIPTION DEPOSITS

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

Long-term subscription deposits held as of December 31, 2004 and 2003 are as follows (in millions of Korean won except deposit per subscriber amounts) :

| Service type | Deposit per subscriber | 2004 | 2003 |
|--------------|------------------------|---------|---------|
| Cellular | W200,000 | W31,440 | W44,197 |

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

11. LEASES

As the Company merged with Shinsegi Telecomm, Inc. in January 2002, certain capital leases made by Shinsegi

Telecomm, Inc. were transferred to the Company. The Company has an option to acquire the leased machinery and equipment, free of charge, upon termination of the lease period. Depreciation expense for the years ended December 31, 2004 and 2003 were W37 million and W250 million, respectively. For the year ended December 31, 2004, all capital leases were terminated and the Company acquired the related leased machinery free of charge.

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The obligation under capital leases that was recorded as current portion of long-term debt as of December 31, 2003 was US\$101 thousand (Korean won equivalent : W121 million).

The Company leased certain machinery and equipment under an operating lease and the related lease expenses for the years ended December 31, 2004 and 2003 were W261 million and W1,774 million, respectively. This operating lease was terminated in 2004.

12. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The details of monetary assets and liabilities denominated in foreign currencies (except for bonds payable and long-term borrowings denominated in foreign currencies described in Notes 8 and 9) as of December 31, 2004 and 2003 are as follows (in millions of Korean won, thousands of U.S. dollars, thousands of HK dollars, thousands of Japanese yen, thousands of Great Britain pounds, thousands of Chinese yuan, thousands of Singapore dollars, thousands of Australian dollars, thousands of Swiss Franc, thousands of Denmark Krone and thousands of Euros):

| | 2004 | | 2003 | |
|----------------------------------|--------------------------------------|-----------------------------|--------------------------------------|-----------------------------|
| | Foreign currencies | Korean won equivalent | Foreign currencies | Korean won equivalent |
| Cash and cash equivalents | US\$ 3,851 | W4,020 | US\$ 1,722 EUR 17 GBP 5 | W 2,062 26 10 |
| Short-term financial instruments | | | US\$31,492 | 37,721 |
| Accounts receivable trade | US\$ 2,163 | 2,257 | US\$ 2,552 SG\$ 743 | 3,057 522 |
| Accounts receivable other | US\$ 2,930 | 3,058 | US\$ 4,863 | 5,825 |
| Guarantee deposits | US\$ 142 JPY 15,756 | 149 160 | US\$ 193 JPY 16,337 | 232 183 |
| | | W9,644 | | W49,638 |
| Accounts payable | US\$ 5,158 JPY 38,618 HK\$ 217 | 5,384 391 29 | US\$ 5,166 JPY 20,606 HK\$ 267 | 6,188 231 41 |

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| | | | | | | |
|--|------|-----|--------|------|-----|---------|
| | GBP | 67 | 135 | GBP | 304 | 648 |
| | SG\$ | 5 | 3 | SG\$ | 5 | 3 |
| | CNY | 1 | 1 | CNY | 140 | 20 |
| | | | | AU\$ | 1 | 1 |
| | EUR | 119 | 169 | EUR | 10 | 15 |
| | | | | CHF | 4 | 4 |
| | | | | DKK | 1 | 1 |
| Obligation under capital lease including current portion | | | | US\$ | 101 | 121 |
| | | | W6,112 | | | W 7,273 |

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

The Company's capital stock consists entirely of common stock with a par value of W500. The number of authorized and issued shares as of December 31, 2004 and 2003 are as follows :

| | 2004 | 2003 |
|---|-------------|-------------|
| Authorized shares | 220,000,000 | 220,000,000 |
| Issued shares | 82,276,711 | 82,276,711 |
| Outstanding shares, net of treasury stock | 73,614,296 | 73,614,308 |

The number of authorized shares of preferred stock as of December 31, 2004 is 5,500,000 shares, none of which is outstanding as of December 31, 2004.

Significant changes in capital stock and capital surplus during the years ended December 31, 2004 and 2003 are as follows (in millions of Korean won, except for share data):

| | Number of shares issued | Common stock | Capital surplus |
|---|----------------------------|-----------------|--------------------|
| At January 1, 2003 | 89,152,670 | W44,576 | W2,884,385 |
| Excess unallocated purchase price (note a) | | | (230) |
| Retirement of treasury stock (note b) | (7,002,235) | | |
| Issuance of common stock for the merger with SK IMT (note c) | 126,276 | 63 | 31,809 |
| At December 31, 2003 | 82,276,711 | 44,639 | 2,915,964 |
| Excess unallocated purchase price (note d) | | | (77) |
| Considerations for conversion right (note e) | | | 67,279 |
| At December 31, 2004 | 82,276,711 | W44,639 | W2,983,166 |

(note a) The excess unallocated purchase price of W864,161 million for the acquisition of additional equity interest of Shinsegi Telecomm, Inc. after acquiring a majority interest in such subsidiary, was deducted from capital surplus upon the merger with Shinsegi Telecomm, Inc. dated January 13, 2002, in accordance with Korean GAAP. In addition, during the year ended December 31, 2003, the Company paid W230 million to certain former shareholders of Shinsegi Telecomm, Inc. in accordance with the ruling of the court and deducted it from capital surplus.

(note b) The Company retired 4,457,635 shares and 2,544,600 shares of treasury stock on January 3, 2003 and August 20, 2003, respectively, and reduced unappropriated retained earnings in accordance with Korean Commercial laws.

(note c) The excess of acquired net assets over the par value of W63 million for the issuance of 126,276 shares of new common stock to minority shareholders of SK IMT Co., Ltd. upon the merger dated

May 1, 2003, was added to capital surplus.

- (note d) During the year ended December 31, 2004, the Company paid W77 million to certain former shareholders of Shinsegi Telecomm, Inc. in accordance with the ruling of the court and deducted it from capital surplus.
 - (note e) The Company issued zero coupon convertible bonds in the principal amount of US\$329,450,000 at US\$324,923,469 with an initial conversion price of W235,625 per share of the Company's common stock on May 27, 2004 and the consideration for conversion right of W67,279 million was added to capital surplus in accordance with Korean GAAP (See Note 2(h)).
-

Table of Contents**14. RETAINED EARNINGS**

Retained earnings as of December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | 2004 | 2003 |
|----------------|------------|------------|
| Appropriated | W4,733,936 | W4,743,822 |
| Unappropriated | 1,422,772 | 396,527 |
| | W6,156,708 | W5,140,349 |

The details of appropriated retained earnings as of December 31, 2004 and 2003 are as follows (in millions of Korean won):

| | 2004 | 2003 |
|--|------------|------------|
| Legal reserve | W 22,320 | W 22,288 |
| Reserve for improvement of financial structure | 33,000 | 33,000 |
| Reserve for loss on disposal of treasury stock | 477,182 | 221,197 |
| Reserve for research and manpower development | 776,296 | 559,198 |
| Reserve for business expansion | 3,425,138 | 3,908,139 |
| Total | W4,733,936 | W4,743,822 |

a. Legal Reserve

The Korean Commercial Code requires the Company to appropriate as a legal reserve at least 10% of cash dividends for each accounting period until the reserve equals 50% of outstanding capital stock. The legal reserve may not be utilized for cash dividends, but may only be used to offset a future deficit, if any, or may be transferred to capital stock.

b. Reserve for Improvement of Financial Structure

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

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

Reserves for loss on disposal of treasury stock and research and manpower development were appropriated in order to recognize certain tax deductible benefits through the early recognition of future expenditures. These reserves will be unappropriated from appropriated retained earnings in accordance

with the relevant tax laws. Such unappropriation will be included in taxable income in the year of unappropriation.

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15. TREASURY STOCK

Upon the issuances of stock dividends and new common stock and the merger with Shinsegi Telecomm, Inc. and SK IMT Co., Ltd., the Company acquired fractional shares totaling 77,958 shares for W6,108 million through 2003. In addition, the Company acquired 7,452,810 shares of treasury stock in the market or through the trust funds for W1,771,507 million through 2003 in order to stabilize the market price of its stock.

Under the Mutual Agreement on Stock Exchange between the Company and KT Corporation, on December 30, 2002 and January 10, 2003, the Company acquired 8,266,923 shares of the Company's common stock from KT Corporation for W1,853,643 million.

On January 13, 2002, the Company merged with Shinsegi Telecomm, Inc. and distributed 2,677,653 shares of treasury stock to minority shareholders of Shinsegi Telecomm, Inc., of which the cost was W584,646 million.

On January 6, 2003, the Company retired 4,457,635 shares of treasury stock that were purchased from KT Corporation as mentioned above in accordance with a resolution of the board of directors dated December 26, 2002 and reduced unappropriated retained earnings by W1,008,882 million including the tax effect of W9,373 million, in accordance with the Korean Commercial Laws.

On June 30, 2003, in accordance with a resolution of the board of directors dated June 24, 2003, the Company announced a stock repurchase program to acquire 2,544,600 shares of

common stock in the market in order to enhance stockholders' interest and to stabilize the stock price. Pursuant to the program, the Company acquired a total of 2,544,600 shares of Company's outstanding common stock for W525,174 million during the period from June 30, 2003 to August 11, 2003 and retired such treasury shares on August 20, 2003, which reduced the unappropriated retained earnings by W537,138 million including the tax effect of W11,964 million, in accordance with Korean Commercial Laws.

On February 20, 2004, the Company additionally acquired fractional shares totaling 12 shares for W2 million which resulted from the merger with SK IMT Co., Ltd.

16. STOCK OPTIONS

On March 17, 2000, March 16, 2001 and March 8, 2002, in accordance with the approval of its stockholders and its board of directors, the Company granted stock options to its management, representing 17,800 shares at an exercise price of W424,000 per share, 43,290 shares at an exercise price of W211,000 per share and 65,730 shares at an exercise price of W267,000 per share. The stock options will become exercisable after three years from the date of grant and shall be exercisable within two years from the first exercisable date. If the employees leave the Company within three years after the grant of stock options, the Company may cancel the stock options awarded. Upon exercise of stock options, the Company will issue its common stock. During the year ended December 31, 2004, stock options representing 530 shares, of which total compensation cost was W3 million, were forfeited. During the year ended December 31, 2003, there was no such forfeitures of

stock options.

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The value of stock options granted is determined using the Black-Scholes option-pricing model, without considering a volatility factor in estimating the value of its stock options, as permitted under Korean GAAP. The following assumptions are used to estimate the fair value of options granted in 2000, 2001 and 2002; risk-free interest rate of 9.1% for 2000, 5.9% for 2001 and 6.2% for 2002; expected life of three years for 2000, 2001 and 2002; expected dividend of W500 for 2000, 2001 and 2002. Under these assumptions, total compensation cost, the recognized compensation cost for the years ended December 31, 2004 and 2003, the compensation cost to be recognized for the following period after December 31, 2004 and the outstanding balance of stock option in capital adjustment as of December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| Grant date | Total compensation cost | Recognized compensation cost | | Compensation cost to be recognized | Stock option in capital adjustment | |
|----------------|-------------------------|------------------------------|--------|------------------------------------|------------------------------------|--------|
| | | 2004 | 2003 | | 2004 | 2003 |
| March 17, 2000 | W1,533 | W | W 128 | W | W1,533 | W1,533 |
| March 16, 2001 | 234 | 10 | 79 | | 234 | 224 |
| March 8, 2002 | 3,246 | 1,082 | 1,082 | 180 | 3,066 | 1,984 |
| | W5,013 | W1,092 | W1,289 | W180 | W4,833 | W3,741 |

The pro forma net income and net income per common share, if the Company had not excluded the volatility factor (expected volatility of 66.8% for options granted in 2000, 67.5% for options granted in 2001 and 63.0% for options granted in 2002) in estimating the value of its stock options, for the years ended December 31, 2004, 2003 and 2002 are as follows :

| | 2004 | 2003 | 2002 |
|---|------------|------------|------------|
| Pro forma net income (in millions of Korean won) | W1,492,914 | W1,939,636 | W1,507,911 |
| Pro forma net income per common share (in Korean won) | 20,280 | 25,835 | 17,894 |

Table of Contents**17. INCOME TAXES**

a. Details of income tax expense

Income tax expenses for the years ended December 31, 2004 and 2003 consist of the following (in millions of Korean won) :

| | 2004 | 2003 |
|-------------------------|--------------|--------------|
| Current | W540,129 | W653,970 |
| Deferred (note 1) | 80,797 | 117,474 |
| Income tax expenses | W620,926 | W771,444 |

(Note 1) Changes in deferred tax liabilities for the years ended December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | 2004 | 2003 |
|--|------------|------------|
| Beginning balance of deferred tax liabilities | (W242,057) | (W123,768) |
| Ending balance of deferred tax liabilities | 323,096 | 242,057 |
| Adjustment to the beginning deferred income tax liabilities based on tax return filed, and other | (242) | 20,187 |
| Tax effect of temporary differences arising from disposal and retirement of treasury stock | | (20,598) |
| Deferred tax liabilities transferred from merged entity, SK IMT Co., Ltd. | | (404) |
| | W 80,797 | W117,474 |

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b. Reconciling items between accounting income and taxable income

Reconciling items between accounting income and taxable income for the years ended December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | 2004 | 2003 |
|---|-----------|-----------|
| (Temporary Differences) | | |
| <u>Additions:</u> | | |
| Allowance for doubtful accounts | W59,622 | W66,833 |
| Accrued interest income prior year | 5,978 | 6,147 |
| Reserves for research and manpower development | 84,235 | 62,902 |
| Equity in losses of affiliates | | 30,537 |
| Foreign currency translation gain | 2,802 | 8,635 |
| Depreciation | 12,073 | 5,520 |
| Loss on impairment of long-term investment securities | 32,074 | 20,343 |
| Loss on impairment of other assets | 21,070 | 22,458 |
| Loss on valuation of currency swap | 15,789 | |
| Accrued severance indemnities | 19,636 | 31,649 |
| Deposits for severance indemnities | 10,540 | 11,669 |
| Other | 57,719 | 87,523 |
| | | |
| Sub-total | 321,538 | 354,216 |
| | | |
| <u>Deductions:</u> | | |
| Reserves for research and manpower development | (130,000) | (280,000) |
| Reserves for loss on disposal of treasury stock | | (255,984) |
| Allowance for doubtful accounts prior year | (67,482) | (65,844) |
| Depreciation prior year | (183,861) | (40,957) |
| Accrued interest income | (7,797) | (5,978) |
| Foreign currency translation loss | (5,617) | (17,084) |
| Equity in earnings of affiliates | (53,825) | (287) |
| Loss on impairment of other assets | (22,459) | (9,896) |
| Loss on impairment of long-term investment securities | (20,342) | (56,270) |
| Accrued severance indemnities | (19,636) | |
| Deposits for severance indemnities | (10,540) | (34,613) |
| Other | (88,358) | (38,547) |
| | | |
| Sub-total | (609,917) | (805,460) |
| | | |
| Total Temporary Differences | (288,379) | (451,244) |
| | | |
| (Permanent Differences) | 200,043 | 155,965 |

Total

(W88,336)

(W295,279)

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c. Change in cumulative temporary differences and deferred tax liabilities

Changes in cumulative temporary differences for the years ended December 31, 2004 and 2003 and deferred tax liabilities as of December 31, 2004 and 2003 are as follows (in Korean won) :

For the year ended December 31, 2004

| Description | January 1, 2004 | Increase (note b) | Decrease (note b) | December 31, 2004 |
|---|--------------------|----------------------|----------------------|----------------------|
| Property and equipment | W 41,373 | (W159,764) | W 9,431 | (W 127,822) |
| Allowance for doubtful accounts | 66,833 | 60,271 | 67,482 | 59,622 |
| Loss on impairment of investment securities | 95,269 | 32,074 | 20,591 | 106,752 |
| Foreign currency translation loss | 5,617 | | 5,617 | |
| Foreign currency translation gain | (2,802) | | (2,802) | |
| Reserves for research and manpower development | (663,702) | (130,000) | (84,235) | (709,467) |
| Reserves for loss on disposal of treasury stock | (474,081) | | | (474,081) |
| Accrued interest income | (5,978) | (7,797) | (5,978) | (7,797) |
| Equity in earnings of affiliates | (35,616) | (53,825) | | (89,441) |
| Loss on impairment of other assets | 22,459 | 21,070 | 22,459 | 21,070 |
| Accrued severance indemnities | 148,963 | 19,636 | 29,075 | 139,524 |
| Deposits for severance indemnities | (139,054) | (19,636) | (19,166) | (139,524) |
| Loss on valuation of currency swap | | 15,789 | | 15,789 |
| Other | 57,547 | 34,788 | 61,854 | 30,481 |
| Total temporary differences | (W883,172) | (W187,394) | W104,328 | (W1,174,894) |
| Deferred tax liabilities-net (note a) | (W242,057) | | | (W 323,096) |

(note a) The tax effects of temporary differences which are not realizable and the net unrealized loss on valuation of long-term investment securities are excluded in determining the above net deferred tax liabilities as of December 31, 2004. Pursuant to a revision in the Korean Corporate Income Tax Law, statutory corporate income tax rate will be changed from current 29.5% to 27.5%, effective January 1, 2005.

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

Table of ContentsFor the year ended December 31, 2003

| Description | January 1, 2003 | Transferred from merged entity, SK IMT | Increase | Decrease | December 31, 2003 |
|---|--------------------|--|----------------|--------------|----------------------|
| Property and equipment | W 33,395 | W | W 59,113 | W 51,135 | W 41,373 |
| Allowance for doubtful accounts | 69,887 | | 66,833 | 69,887 | 66,833 |
| Loss on impairment of long-term investment securities | 131,196 | | 20,343 | 56,270 | 95,269 |
| Foreign currency translation loss | 22,701 | | | 17,084 | 5,617 |
| Foreign currency translation gain | (11,437) | | | (8,635) | (2,802) |
| Reserves for research and manpower development | (442,603) | | (284,000) | (62,902) | (663,702) |
| Reserves for loss on disposal of treasury stock | (218,097) | | (255,984) | | (474,081) |
| Accrued interest income | (4,718) | (1,414) | (5,978) | (6,132) | (5,978) |
| Equity in earnings (losses) of affiliates | (62,363) | | (287) | (27,034) | (35,616) |
| Loss on impairment of other assets | 10,224 | | 22,459 | 10,224 | 22,459 |
| Accrued severance indemnities | 115,765 | 268 | 32,930 | | 148,963 |
| Deposits for severance indemnities | (115,765) | (215) | (34,742) | (11,669) | (139,054) |
| Other | 55,087 | 1 | 15,557 | 13,100 | 57,547 |
| Total temporary differences | (W416,728) | (W1,360) | (W363,756) | W101,328 | (W883,172) |
| Deferred tax liabilities-net (note a) | (W123,768) | (W 404) | | | (W242,057) |

(note a) The tax effects of temporary differences which are not realizable and the net unrealized loss on valuation of long-term investment securities are excluded in determining the above net deferred tax liabilities as of December 31, 2003. Pursuant to a revision in the Korean Corporate Income Tax Law, statutory corporate income tax rate will be changed from current 29.7% to 27.5%, effective January 1, 2005. Such change in statutory corporate income tax rate resulted in a decrease in deferred tax liabilities as of December 31, 2003 by

W20,245 million.

d. Effective tax rate

Effective tax rates for the years ended December 31, 2004 and 2003 are as follows (in millions of Korean won):

| | 2004 | 2003 |
|-----------------------------------|------------|------------|
| Income before income tax expenses | W2,115,778 | W2,714,194 |
| Income tax expenses | 620,926 | 771,444 |
| Effective tax rate | 29.35% | 28.42% |

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e. Intra-period allocation of income tax expenses

Intra-period allocation of income tax expenses for the years ended December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | 2004 | 2003 |
|--|----------|----------|
| Income tax expenses of ordinary income | W620,926 | W771,444 |
| Income tax expenses of extraordinary gain | | |
| Income tax expenses of capital surplus retained earnings | | 20,598 |
| | | |
| Income tax expenses | W620,926 | W792,042 |

18. NET INCOME AND ORDINARY INCOME PER SHARE

The Company's net income and ordinary income per share amounts for the years ended December 31, 2004 and 2003 are computed as follows (in millions of Korean won, except for share and income per share) :

Net income and ordinary income per share

| | 2004 | 2003 |
|--|-------------|-------------|
| Net income and ordinary income | W 1,494,852 | W 1,942,750 |
| Weighted average number of common shares outstanding | 73,614,297 | 75,078,219 |
| | | |
| Net income and ordinary income per share (in Korean won) | W 20,307 | W 25,876 |

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The weighted average number of common shares outstanding for the years ended December 31, 2004 and 2003 is calculated as follows :

| | Number of shares | Weighted number of days | Weighted number of shares |
|---|---------------------|-------------------------------|---------------------------------|
| For 2004 | | | |
| At January 1, 2004 | 82,276,711 | 366 / 366 | 82,276,711 |
| Treasury stock, at the beginning | (8,662,403) | 366 / 366 | (8,662,403) |
| Purchase of fractional share related to merger with SK IMT Co., Ltd. | (12) | 316 / 366 | (11) |
| Total | 73,614,296 | | 73,614,297 |
| For 2003 | | | |
| At January 1, 2003 | 89,152,670 | 365 / 365 | 89,152,670 |
| Treasury stock, at the beginning | (9,310,607) | 365 / 365 | (9,310,607) |
| Purchase of treasury stock | (3,809,288) | 356 / 365 | (3,715,360) |
| Purchase of fractional share related to merger with Shinsegi Telecomm, Inc. | (52) | 332 / 365 | (47) |
| Purchase of fractional share related to merger with SK IMT Co., Ltd. | (91) | 233 / 365 | (58) |
| Issuance of common stock for merger with SK IMT Co., Ltd. | 126,276 | 233 / 365 | 80,609 |
| Purchase of treasury stock | (2,544,600) | (note 1) | (1,128,988) |
| Total | 73,614,308 | | 75,078,219 |

(note 1) The treasury stock was acquired on several different dates in 2003 and the weighted number of shares was calculated considering each transaction date.

Diluted net income and ordinary income per share amounts for the years ended December 31, 2004 and 2003 are computed as follows (in millions of won, except for share data) :

Diluted net income and ordinary income per share

| | 2004 | 2003 |
|--|-----------------|-----------------|
| Adjusted net income and ordinary income (note 2) | W 1,494,852 | W 1,942,750 |
| Adjusted weighted average number of common shares outstanding (note 2) | 73,614,297 | 75,078,219 |
| Diluted net income and ordinary income per share | W 20,307 | W 25,876 |

(note 2) In the years ended December 31, 2004 and 2003, the outstanding stock options did not have a dilutive effect because the exercise price exceeded the average market price of common stock for the years ended December 31, 2004 and 2003, respectively.

Table of Contents**19. DIVIDEND DISCLOSURE**

Details of dividends which were declared for the years ended December 31, 2004 and 2003 are as follows (in millions of Korean won except for share data) :

| | Dividend type | Number of shares outstanding | Face value | Dividend ratio | Dividends |
|------|---------------------------|------------------------------|------------|----------------|-----------|
| 2004 | Cash dividends (interim) | 73,614,308 | W500 | 200% | W 73,614 |
| | Cash dividends (year-end) | 73,614,296 | W500 | 1,860% | 684,613 |
| | Total | | | | W758,227 |
| 2003 | Cash dividends (year-end) | 73,614,308 | W500 | 1,100% | W404,879 |

Dividends payout ratios (including interim dividend) for the years ended December 31, 2004 and 2003 are as follows (in millions of Korean won) :

| | 2004 | 2003 |
|------------------------|-----------|-----------|
| Dividends | W 758,227 | W 404,879 |
| Net income | 1,494,852 | 1,942,750 |
| Dividends payout ratio | 50.72% | 20.84% |

Dividends yield ratios for the years ended December 31, 2004 and 2003 are as follows (in Korean won):

| | 2004 | 2003 |
|-----------------------------|----------|---------|
| Dividend per share | W 10,300 | W 5,500 |
| Stock price at the year-end | 197,000 | 199,000 |
| | 5.23% | 2.76% |

20. COMMITMENTS AND CONTINGENCIES

- a. The Company's warranty obligations under mobile network system development service contracts with TA Orange Co., Ltd., a Thailand company, and Singapore Telecommunications Ltd., a Singapore company, have been guaranteed by Citi Corp. and Chohung Bank within the limit of US\$ 550,000 and SG\$ 117,250, respectively.

- b. At December 31, 2004, the Company has guarantee deposits restricted for its checking accounts totaling W26 million and deposits restricted for the interest of the public totaling W10,000 million.

21. INSURANCE

At December 31, 2004, certain of the Company's assets are insured with local insurance companies as follows (in millions of Korean won and thousands of U.S. dollars):

| Insured | Risk | Carrying value | Coverage |
|------------------------|----------------------------------|-------------------|--------------|
| | | | US\$ 68,815 |
| Property and equipment | Fire and comprehensive liability | W 6,467,675 | W 12,076,952 |

In addition, the Company carries directors and officers liability coverage insurance totaling W30,000 million.

Table of Contents**22. TRANSACTIONS WITH RELATED COMPANIES**

Significant related party transactions and balances as of and for the years ended December 31, 2004 and 2003 were as follows (in millions of Korean won) :

| Description | 2004 | 2003 |
|--|-----------|-----------|
| <u>Transactions</u> | | |
| SK C&C Co., Ltd.: | | |
| Purchases of property and equipment | W 126,648 | W 180,270 |
| Commissions paid and other expenses | 289,933 | 284,032 |
| Commission and other income | 7,918 | 8,200 |
| SK Engineering & Construction Co., Ltd.: | | |
| Construction | 419,871 | 324,260 |
| Commissions paid and other expenses | 6,148 | 7,662 |
| Commissions and other income | 1,081 | 775 |
| SK Networks Co., Ltd.: | | |
| Purchases of property and equipment | 3,087 | 3,213 |
| Commissions paid and other expenses | 400,290 | 210,374 |
| Commissions and other income | 13,196 | 10,761 |
| SK Corporation: | | |
| Purchases of property and equipment | 4,071 | 3,831 |
| Commissions paid and other expenses | 47,438 | 35,004 |
| Commissions and other income | 7,994 | 5,274 |
| Innoace Co., Ltd.: | | |
| Purchases of property and equipment | 23,776 | 35,225 |
| Commissions paid and other expenses | 4,337 | 8,969 |
| Commissions and other income | 296 | 313 |
| SK Communications Co., Ltd.: | | |
| Purchases of property and equipment | 229 | 7,379 |
| Commissions paid and other expenses | 39,090 | 29,042 |
| Commissions and other income | 13,660 | 18,534 |
| SK Telesys Co., Ltd.: | | |
| Purchases of property and equipment | 188,822 | 188,111 |
| Commissions paid and other expenses | 3,102 | 1,717 |
| Commissions and other income | 322 | 179 |
| SK Life Insurance Co., Ltd.: | | |
| Purchases of property and equipment | 29,959 | 1,570 |
| Commissions paid and other expenses | 1,630 | 1,637 |
| Commissions and other income | 8,175 | 8,295 |
| Widerthan. Co., Ltd.: | | |

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| | | |
|-------------------------------------|--------|--------|
| Purchases of property and equipment | 4,418 | 22,643 |
| Commissions paid and other expenses | 82,364 | 49,939 |
| Commissions and other income | 1,084 | 401 |

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| Description | 2004 | 2003 |
|--|---------|---------|
| <u>Balances</u> | | |
| SK C&C Co., Ltd.: | | |
| Accounts receivable | W 77 | W 112 |
| Accounts payable | 75,802 | 72,384 |
| Guarantee deposits received | 346 | 346 |
| SK Engineering & Construction Co., Ltd.: | | |
| Accounts receivable | 76 | 92 |
| Accounts payable | 135,213 | 63,442 |
| Guarantee deposits received | 408 | 90 |
| SK Networks Co., Ltd.: | | |
| Accounts receivable | 1,102 | 996 |
| Guarantee deposits | 113 | 113 |
| Accounts payable | 18,696 | 62,436 |
| Guarantee deposits received | 955 | 719 |
| SK Corporation: | | |
| Accounts receivable | 2,392 | 474 |
| Guarantee deposits paid | 103,720 | 103,720 |
| Accounts payable | 19,917 | 2,908 |
| Guarantee deposits received | 10,194 | 10,194 |
| Innoace Co., Ltd.: | | |
| Accounts payable | 15,199 | 25,640 |
| Guarantee deposits received | 2,138 | 1,069 |
| SK Communications Co., Ltd.: | | |
| Accounts receivable | 235 | 4,838 |
| Accounts payable | 11,509 | 8,903 |
| Guarantee deposits received | 11,127 | 6,764 |
| SK Telesys Co., Ltd.: | | |
| Accounts receivable | 11 | 2 |
| Accounts payable | 51,954 | 33,904 |
| SK Wyverns Baseball Club Co., Ltd.: | | |
| Long-term and short-term loans | 7,957 | 13,532 |
| SK Life Insurance Co., Ltd.: | | |
| Deposits for severance indemnities | 61,419 | 59,613 |
| Guarantee deposits | 60 | 60 |
| Accounts receivable | 1,100 | 1,119 |
| Guarantee deposits received | 821 | 338 |
| Widerthan. Co., Ltd.: | | |

| | | |
|---------------------|-------|-------|
| Accounts receivable | 58 | 30 |
| Accounts payable | 9,829 | 9,762 |

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23. DERIVATIVE INSTRUMENTS

The Company has entered into a foreign currency forward contract and a fixed-to-fixed cross currency swap contract with Citi Bank, BNP Paribas and Credit Suisse First Boston International to hedge the foreign currency risk of unguaranteed US dollar denominated bonds with face amounts totaling US\$300,000 thousand at annual fixed interest rate of 4.25% issued on April 1, 2004. As of December 31, 2004, in connection with unsettled foreign currency swap contract to which the cash flow hedge accounting is applied, a loss on valuation of derivatives amounting to W49,452 million (excluding foreign exchange translation gain arising from unguaranteed US dollar denominated bonds totaling W31,501 million) was accounted for as a capital adjustment.

In addition, the Company has entered into a fixed-to-fixed cross currency swap contract with Credit Suisse First Boston International to hedge foreign currency risk of unguaranteed US dollar denominated convertible bonds with face amounts of US\$329,450 thousand issued on May 27, 2004. In connection with unsettled fixed-to-fixed cross currency swap contract to which the cash flow hedge accounting is not applied, a loss on valuation of currency swap of W15,790 million for year ended December 31, 2004 is charged to current operations.

As of December 31, 2004, fair values of above derivatives totaling W96,743 million are recorded in long-term liabilities.

Details of derivative instruments as of December 31, 2004 are as follows (in thousands of US dollars and millions of Korean won) :

| Type | Hedged item | Face amount | Duration of contract | Fair value | |
|----------------------------------|--|-------------|--------------------------------|-------------------------------|----------------|
| | | | | Designated as cash flow hedge | Not designated |
| Fix-to-fixed cross currency swap | Unguaranteed US dollar denominated bonds | US\$300,000 | March 23, 2004 ~ April 1, 2011 | W80,953 | W |
| Fix-to-fixed cross currency swap | Unguaranteed US dollar denominated convertible bonds | US\$100,000 | May 27, 2004 ~ May 27, 2009 | | 15,790 |

The above derivative instruments designated as cash flow hedge mature within 75 months from December 31, 2004 at the longest; and the expected portion of capital adjustments as of December 31, 2004, related to loss on valuation of currency swap, to be recorded in earnings within the next 12 months amounted to W5,612 million.

Table of Contents**24. MERGER WITH SK IMT CO., LTD.**

On May 1, 2003, the Company merged with SK IMT Co., Ltd., in accordance with a resolution of the Company's board of directors on December 20, 2002 and the approval of shareholders of SK IMT Co., Ltd. on February 21, 2003. The exchange ratio of common stock between the Company and SK IMT Co., Ltd. was 0.11276 share of the Company's common stock with a par value of W500 to 1 share of common stock of SK IMT Co., Ltd. with a par value of W5,000. Using such exchange ratio, the Company distributed 126,276 shares of new issued common stock to minority shareholders of SK IMT Co., Ltd. and the Company retired all shares of SK IMT Co., Ltd. owned by the Company and SK IMT Co., Ltd. upon the merger. The assets and liabilities transferred from SK IMT Co., Ltd. were accounted for at the carrying amounts of SK IMT Co., Ltd.

The condensed balance sheet of SK IMT as of April 30, 2003 and December 31, 2002 and the condensed statements of operations for the period from January 1, 2003 to April 30, 2003 and for the year ended December 31, 2002 are as follows (in millions of Korean won) :

| | Apr. 30, 2003 | Dec. 31, 2002 |
|--|--|-----------------|
| <u>Condensed Balance Sheets</u> | | |
| Current assets | W 332,321 | W 963,896 |
| Fixed asset | 1,274,185 | 1,274,630 |
| Total Assets | W 1,606,506 | W 2,238,526 |
| Current liabilities | W 7,808 | W 26,164 |
| Long-term liabilities | 556,444 | 558,107 |
| Total Liabilities | 564,252 | 584,271 |
| Capital stock | 300,000 | 300,000 |
| Capital surplus | 1,300,020 | 1,300,020 |
| Retained earnings | 47,192 | 54,235 |
| Capital adjustment | (604,958) | |
| Total Stockholders' Equity | 1,042,254 | 1,654,255 |
| Total Liabilities and Stockholders' Equity | W 1,606,506 | W 2,238,526 |
| | Period from Jan. 1, 2003 to Apr. 30, 2003 | Year ended |

Dec. 31,
2002**Condensed Statements of Operations**

| | | |
|-------------------------------|-----------|----------|
| Operating revenue | W | W |
| Operating expenses | (7,009) | (7,737) |
| Operating loss | (7,009) | (7,737) |
| Non-operating income | 12,032 | 47,794 |
| Non-operating expenses | (13,694) | (1,265) |
| Ordinary income (loss) | (8,671) | 38,792 |
| Extraordinary gain (loss) | | |
| Income before income taxes | (8,671) | 38,792 |
| Income tax benefit (expenses) | 2,961 | (11,554) |
| Net income (loss) | (W 5,710) | W27,238 |

Table of Contents**25. OPERATING RESULTS OF FINAL INTERIM PERIOD**

The Company's key operating results for the three months ended December 31, 2004 and 2003 are as follows (in millions of Korean won, except for income per share) :

| | 4 th Quarter of | |
|--------------------------------------|----------------------------|-------------|
| | 2004 | 2003 |
| | (unaudited) | (unaudited) |
| Operating revenue | W2,484,849 | W2,480,397 |
| Ordinary income | 481,355 | 560,063 |
| Net income | 348,072 | 433,230 |
| Net income per share (in Korean won) | 4,728 | 5,885 |

26. SUBSEQUENT EVENT

a. Acquisition of License for WiBro

The Company acquired the license for WiBro, a portable internet service which is scheduled to start commercial operations in June 2006, together with KT Corporation and Hanaro Telecom Inc. through deliberation of the Committee of Information and Communication Policy dated January 20, 2005. With regard to this service, the Company is scheduled to make contribution of W117 billion and receive the WiBro license from the Ministry of Information and Technology by the end of February 2005.

b. Agreement for establishing SK-EarthLink, a joint venture company in the U.S.A.

In accordance with the resolution of the Company's board of directors dated January 26, 2005, the Company and EarthLink, Inc., an internet service provider in the United States of America, agreed to establish

SK-EarthLink, a joint venture company, in the United States of America in February 2005 in order to provide wireless telecommunication service across the United States of America. The Company will invest US\$220 million for a 50% equity interest in the joint venture company from 2005 through 2007.

SK-EarthLink plans to launch cellular voice and data services across the United States of America by the third quarter of 2005 by renting networks from network operators throughout the United States of America, also known as partial mobile virtual network operator (MVNO) system.