NUVEEN CALIFORNIA MUNICIPAL VALUE FUND INC
Form N-2/A
May 23, 2013

As filed with the U.S. Securities and Exchange Commission on May 23, 2013

1933 Act File No. 333-187008

1940 Act File No. 811-05235

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form N-2

(Check appropriate box or boxes)

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933	X
Pre-Effective Amendment No. 1	X
Post-Effective Amendment No.	

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940	X
Amendment No. 5	X

Nuveen California Municipal Value Fund, Inc.

(Exact name of Registrant as Specified in Charter)

333 West Wacker Drive, Chicago, Illinois 60606

(Address of Principal Executive Offices)

(Number, Street, City, State, Zip Code)

(Registrant s Telephone Number, including Area Code): (800) 257-8787

Kevin J. McCarthy

Vice President and Secretary

333 West Wacker Drive

Chicago, Illinois 60606

Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

Copy to:

Thomas S. Harman

Bingham McCutchen LLP

2020 K Street, NW

Washington, DC 20006

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. x

It is proposed that this filing will become effective (check appropriate box)

¨ When declared effective pursuant to section 8(c)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Shares of Common Stock, $0.01 par value	2,500,000	$ 10.33	$ 25,825,000	$ 3,522.53

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933 based on the average of the high and low sales prices of the shares of beneficial interest on May 20, 2013, as reported on the NYSE.

(2) Transmitted prior to filing. $1.42 previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this Prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 23, 2013

PROSPECTUS

2.5 Million Shares

Nuveen California Municipal Value Fund, Inc.

Common Stock

Nuveen California Municipal Value Fund, Inc. (the Fund) is a diversified, closed-end management investment company. The Fund s primary investment objective is to provide current income exempt from regular federal and California income taxes. The Fund s secondary investment objective is to enhance portfolio value relative to the California municipal bond market by investing in tax-exempt California municipal securities that Nuveen Asset Management, LLC (Nuveen Asset Management), the Fund s sub-adviser, believes are underrated or undervalued or that represent municipal market sectors that are undervalued. The Fund seeks to achieve its investment objectives by investing, under normal circumstances, at least 80% of its Managed Assets (as defined below under *Portfolio Contents*) in municipal securities and other related investments the income from which is exempt from regular federal and California income tax. Under normal circumstances, the Fund invests at least 80% of its Managed Assets in municipal securities that at the time of investment are rated within the four highest grades by at least one of the nationally recognized statistical rating organizations (NRSRO) that rate such security or are unrated but judged to be of comparable quality by Nuveen Asset Management. The Fund may invest up to 20% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade or are unrated but judged to be of comparable quality by Nuveen Asset Management. No more than 10% of the Fund s Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by Nuveen Asset Management. The Fund cannot assure you that it will achieve its investment objectives.

Investing in the Fund s common stock involves certain risks that are described in the Risk Factors section of this Prospectus (the Prospectus).

Neither the U.S. Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

You should read this Prospectus, which contains important information about the Fund, before deciding whether to invest and retain it for future reference. A Statement of Additional Information dated , 2013, (the SAI), containing additional information about the Fund, has been filed with the SEC and is incorporated by reference in its entirety into this Prospectus. You may request a free copy of the SAI, the table of contents of which is on the last page of this Prospectus, annual and semi-annual reports to shareholders and other information about the Fund, and make shareholder inquiries by calling (800) 257-8787, by writing to the Fund or from the Fund s website (http://www.nuveen.com). The information contained in, or that can be accessed through, the Fund s website is not part of this Prospectus. You also may obtain a copy of the SAI (and other information regarding the Fund) from the SEC s web site (http://www.sec.gov).

Shares of the Fund s common stock do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other governmental agency.

Portfolio Contents. As a fundamental policy, under normal circumstances, the Fund invests at least 80% of its Managed Assets (as defined below) in municipal securities and other related investments the income from which is exempt from regular federal and California income tax. The Fund invests in tax-exempt municipal securities that Nuveen Asset Management believes are underrated or undervalued or that represent municipal market sectors that are undervalued. The Fund has not established any limit on the percentage of its portfolio that may be invested in municipal bonds subject to the alternative minimum tax provisions of federal tax law, and the Fund expects that a substantial portion of the income it produces will be includable in alternative minimum taxable income. As a non-fundamental policy, under normal circumstances, the Fund invests at least 80% of its Managed Assets in municipal securities that at the time of investment are investment grade quality. Also as a non-fundamental policy, the Fund may invest up to 20% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade or are unrated but judged to be of comparable quality by Nuveen Asset Management. Additionally, as a non-fundamental policy, no more than 10% of the Fund s Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by Nuveen Asset Management. Municipal securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as junk bonds. The Fund may invest up to approximately 15% of its Managed Assets in inverse floating rate securities. Managed Assets means the total assets of the Fund, minus the sum of its accrued liabilities (other than Fund liabilities incurred for the express purpose of creating leverage). Total assets for this purpose shall include assets attributable to the Fund s use of effective leverage (whether or not those assets are reflected in the Fund s financial statements for purposes of generally accepted accounting principles), such as, but not limited to, the portion of assets in special purpose trusts of which the Fund owns the inverse floater certificates that has been effectively financed by the trust s issuance of floating rate certificates.

No Preferred Shares. Unless otherwise approved by shareholders, the Fund will not leverage its capital structure by issuing senior securities such as preferred shares or debt instruments. However, the Fund may borrow for temporary, emergency or other purposes as permitted by the Investment Company Act of 1940, as amended. In addition, the Fund may invest in certain instruments, including inverse floating rate securities, that have the economic effect of financial leverage. The degree of economic leverage associated with the Fund s investment in such securities is generally greater than the percentage of the Fund s net assets invested in those securities.

Adviser and Sub-Adviser. Nuveen Fund Advisors, LLC, the Fund s investment adviser, is responsible for determining the Fund s overall investment strategies and their implementation. Nuveen Asset Management is the Fund s investment sub-adviser and oversees the day-to-day investment operations of the Fund.

The minimum price on any day at which shares of common stock may be sold will not be less than the current net asset value per share plus the per share amount of the commission to be paid to the Fund s distributor, Nuveen Securities, LLC (Nuveen Securities). The Fund and Nuveen Securities will suspend the sale of common stock if the per share price of the shares is less than the minimum price. The Fund currently intends to distribute the shares offered pursuant to this Prospectus primarily through at-the-market transactions, although from time to time it may also distribute shares through an underwriting syndicate or a privately negotiated transaction. To the extent shares are distributed other than through at-the-market transactions, the Fund will file a supplement to this Prospectus describing such transactions. For information on how common stock may be sold, see the Plan of Distribution section of this Prospectus.

Shares of Common Stock are listed on the New York Stock Exchange (the NYSE). The trading or ticker symbol of the Fund s Common Stock is NCA. The Fund s closing price on the NYSE on May 16, 2013 was $10.29.

The date of this Prospectus is , 2013

TABLE OF CONTENTS

You should rely only on the information contained or incorporated by reference into this Prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the front of this Prospectus. The Fund will update this Prospectus to reflect any material changes to the disclosures herein.

PROSPECTUS SUMMARY

This is only a summary. You should review the more detailed information contained elsewhere in this Prospectus and in the Statement of Additional Information (the SAI).

The Fund	Nuveen California Municipal Value Fund, Inc. (the Fund) is a diversified, closed-end investment management company. See The Fund. Shares of the Fund s common stock, $0.01 par value (Common Stock), are traded on the New York Stock Exchange (NYSE) under the symbol NCA. See Description of Common Stock. As of April 30, 2013, the Fund had 25,283,751 shares of Common Stock outstanding and net assets applicable to Common Stock of $264,573,313.
Investment Objectives and Policies	The Fund s primary investment objective is to provide current income exempt from regular federal and California income taxes. The Fund s secondary investment objective is to enhance portfolio value relative to the California municipal bond market by investing in tax-exempt California municipal securities that Nuveen Asset Management (defined below under Sub-Adviser), the Fund s sub-adviser, believes are underrated or undervalued or that represent municipal market sectors that are undervalued. Municipal securities are securities, including municipal bonds and notes, other securities issued to finance and refinance public projects, and related securities and derivative investments creating exposure to municipal bonds, notes and securities, that provide for the payment of interest income that is exempt from regular federal income tax. The Fund cannot assure you that it will achieve its investment objectives. As a fundamental investment policy, under normal circumstances, the Fund will invest at least 80% of its Managed Assets in municipal securities and other related investments the interest income from which is exempt from regular federal and California income tax (as used in this document, the term municipal securities refers to all such investments collectively). The Fund s investment objectives and certain investment policies identified as such are considered fundamental and may not be changed without stockholder approval. Managed Assets means the total assets of the Fund, minus the sum of its accrued liabilities (other than Fund liabilities incurred for the express purpose of creating leverage). Total assets for this purpose shall include assets attributable to the Fund s use of effective leverage (whether or not those assets are reflected in the Fund s financial statements for purposes of generally accepted accounting principles), such as, but not limited to, the portion of assets in special purpose trusts of which the Fund owns the inverse floater certificates that has been effectively financed by the trust s issuance of floating rate certificates. As a non-fundamental investment policy, under normal circumstances, the Fund will invest at least 80% of its Managed Assets in investment grade securities that, at the time of investment are rated investment grade or are unrated but judged to be of comparable quality by Nuveen Asset Management. Also as a non-fundamental investment policy, under normal circumstances, the Fund may invest up to 20% of its Managed Assets in municipal securities that at the time of investment are rated below

investment grade or are unrated but judged to be of comparable quality by Nuveen Asset Management. Additionally, as a non-fundamental policy, no more than 10% of the Fund s Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by Nuveen Asset Management.

As a fundamental policy, the Fund will not leverage its capital structure by issuing senior securities such as preferred shares or debt instruments. However, the Fund may borrow for temporary, emergency or other purposes as permitted by the Investment Company Act of 1940, as amended (the 1940 Act), and invest in certain instruments, including inverse floating rate securities, that have the economic effect of financial leverage.

The Fund seeks to achieve its investment objectives by investing in tax-exempt California municipal securities that Nuveen Asset Management believes are underrated and undervalued or that represent municipal market sectors that are undervalued. The Fund will primarily invest in municipal securities with long-term maturities in order to maintain a weighted average maturity of at least 15 years, but the average weighted maturity of obligations held by the Fund may be shortened, depending on market conditions. As of April 30, 2013, the weighted average maturity of the Fund s portfolio was 19.70 years.

The Fund has not established any limit on the percentage of its portfolio that may be invested in municipal bonds subject to the alternative minimum tax provisions of federal tax law, and the Fund expects that a substantial portion of the income it produces will be includable in alternative minimum taxable income. For a discussion of how the federal alternative minimum tax may affect stockholders, see Tax Matters.

A security is considered investment grade quality if it is rated within the four highest grades by at least one of the nationally recognized statistical rating organizations (NRSROs) that rate such security, or if it is unrated but judged to be of comparable quality by Nuveen Asset Management. Municipal securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as junk bonds.

As of February 28, 2013, approximately 83% of the Fund s Managed Assets were invested in municipal securities rated investment grade by an NRSRO (including Standard & Poor s Corporation Ratings Group, a division of The McGraw-Hill Companies, Inc. (S&P), Moody s Investors Service, Inc. (Moody s) and Fitch Ratings, Inc. (Fitch)). The relative percentages of the value of the investments attributable to investment grade municipal securities and to below investment grade municipal securities could change over time as a result of rebalancing the Fund s assets by Nuveen Asset Management, market value fluctuations, issuance of additional shares and other events.

See The Fund s Investments and Risk Factors.

Investment Adviser

Nuveen Fund Advisors, LLC (NFALLC) serves as the Fund s investment adviser. NFALLC is responsible for determining the Fund s overall strategy and its implementation. NFALLC, a registered investment adviser, is a wholly-owned subsidiary of Nuveen Investments, Inc. (Nuveen Investments). Founded in 1898, Nuveen Investments and its affiliates had approximately $219 billion in assets as of December 31, 2012. See Management of the Fund Investment Adviser, Sub-Adviser and Portfolio Manager.

Sub-Adviser

Nuveen Asset Management, LLC (Nuveen Asset Management) serves as the Fund s sub-adviser. Nuveen Asset Management, a registered investment adviser, is a wholly-owned subsidiary of NFALLC. Nuveen Asset Management oversees the day-to-day investment operations of the Fund.

Nuveen Securities, LLC (Nuveen Securities), a registered broker-dealer affiliate of NFALLC and Nuveen Asset Management, is involved in the offering of the Fund s Common Stock. See Plan of Distribution Distribution Through At-the-Market Transactions.

Use of Leverage

Financial leverage is created as a result of the Fund s investments in residual interest certificates of tender option bond trusts, also called inverse floating rate securities, because the Fund s investment exposure to the underlying bonds held by the trust have been effectively financed by the trust s issuance of floating rate certificates. The Fund s total effective leverage may be up to 15% of its Managed Assets. As of February 28, 2013, the Fund s total effective leverage was approximately 2% of its Managed Assets.

Leverage involves special risks. See Risk Factors Leverage Risk. There is no assurance that the Fund s leveraging strategy will be successful. The Fund will seek to invest the proceeds of any financial leverage in a manner consistent with the Fund s investment objectives and policies. See Use of Leverage.

The Fund pays a management fee to NFALLC (which in turn pays a portion of its fee to the Fund s sub-adviser, Nuveen Asset Management) based on a percentage of Managed Assets. Managed Assets include the proceeds realized and managed from the Fund s use of leverage as set forth in the Fund s investment management agreement. NFALLC will be responsible for using leverage to pursue the Fund s investment objectives, and will base its decision regarding whether and how much leverage to use for the Fund based on its assessment of whether such use of leverage will advance the Fund s investment objectives. However, the fact that a decision to increase the Fund s leverage will have the effect, all other things being equal, of increasing Managed Assets and therefore NFALLC s and Nuveen Asset Management s fees means that NFALLC and Nuveen Asset Management may have a conflict of interest in determining whether to increase the Fund s use of leverage. NFALLC will seek to manage that potential conflict by only increasing the Fund s use of leverage when it determines that such increase is consistent with the Fund s investment objectives, and by periodically reviewing the Fund s performance and use of leverage with the Board.

Offering Methods

The Fund may offer shares using one or more of the following methods: (i) at-the-market transactions through one or more broker-dealers that have entered into a selected dealer agreement with Nuveen Securities, one of the Fund s underwriters; (ii) through an underwriting syndicate; and

(iii) through privately negotiated transactions between the Fund and specific investors. See Plan of Distribution.

Distribution Through At-the-Market Transactions. The Fund from time to time may issue and sell its Common Stock through Nuveen Securities, to certain broker-dealers that have entered into selected dealer agreements with Nuveen Securities. Currently, Nuveen Securities has entered into a selected dealer agreement with Stifel, Nicolaus & Company, Incorporated (Stifel Nicolaus) pursuant to which Stifel Nicolaus will be acting as Nuveen Securities s exclusive sub-placement agent with respect to at-the-market offerings of the shares of Common Stock. Common Stock will only be sold on such days as shall be agreed to by the Fund, Nuveen Securities and Stifel Nicolaus. Common Stock will be sold at market prices, which shall be determined with reference to trades on the NYSE, subject to a minimum price to be established each day by the Fund. The minimum price on any day will not be less than the current net asset value per share plus the per share amount of the commission to be paid to Nuveen Securities. The Fund and Nuveen Securities will suspend the sale of Common Stock if the per share price of the shares is less than the minimum price.

The Fund will compensate Nuveen Securities with respect to sales of the Common Stock at a commission rate of up to 1.0% of the gross proceeds of the sale of Common Stock. Nuveen Securities will compensate broker-dealers at a rate of up to 0.8% of the gross proceeds of the sale of Common Stock sold by that broker-dealer. Settlements of Common Stock sales will occur on the third business day following the date of sale.

In connection with the sale of the Common Stock on behalf of the Fund, Nuveen Securities may be deemed to be an underwriter within the meaning of the Securities Act of 1933, as amended (the 1933 Act), and the compensation of Nuveen Securities may be deemed to be underwriting commissions or discounts. Unless otherwise indicated in a further Prospectus supplement, Nuveen Securities will act as underwriter on a reasonable efforts basis.

The offering of Common Stock pursuant to the Distribution Agreement (defined below under Plan of Distribution Distribution Through At-the-Market Transactions) will terminate upon the earlier of (i) the sale of all shares of Common Stock subject thereto or (ii) termination of the Distribution Agreement. The Fund and Nuveen Securities each have the right to terminate the Distribution Agreement in its discretion at any time. See Plan of Distribution Distribution Through At-the-Market Transactions.

The Fund currently intends to distribute the shares offered pursuant to this Prospectus primarily through at-the-market transactions, although from time to time it may also distribute shares through an underwriting syndicate or a privately negotiated transaction. To the extent shares are distributed other than through at-the-market transactions, the Fund will file a supplement to this Prospectus describing such transactions.

The Fund s closing price on the NYSE on May 16, 2013 was $10.29.

Distribution Through Underwriting Syndicates. The Fund from time to time may issue additional shares of Common Stock through a syndicated secondary offering. In order to limit the impact on the market price of the Fund s Common Stock, underwriters will market and price the offering on an expedited basis (*e.g.*, overnight or similarly abbreviated offering period). The Fund will launch a syndicated offering on a day, and upon terms, mutually agreed upon between the Fund, Nuveen Securities and the underwriting syndicate.

The Fund will offer its shares at a price equal to a specified discount of up to 5% from the closing market price of the Fund s Common Stock on the day prior to the offering date. The applicable discount will be negotiated by the Fund and Nuveen Securities in consultation with the underwriting syndicate on a transaction-by-transaction basis. The Fund will compensate the underwriting syndicate out of the proceeds of the offering based upon a sales load of up to 4% of the gross proceeds of the sale of Common Stock. The minimum net proceeds per share to the Fund will not be less than the greater of (i) the Fund s latest net asset value per share of Common Stock or (ii) 91% of the closing market price of the Fund s Common Stock on the day prior to the offering date. See Plan of Distribution Distribution Through Underwriting Syndicates.

Distribution Through Privately Negotiated Transactions. The Fund, through Nuveen Securities, from time to time may sell directly to, and solicit offers from, institutional and other sophisticated investors, who may be deemed to be underwriters as defined in the 1933 Act for any resale of Common Stock.

The terms of such privately negotiated transactions will be subject to the discretion of the management of the Fund. In determining whether to sell Common Stock through a privately negotiated transaction, the Fund will consider relevant factors including, but not limited to, the attractiveness of obtaining additional funds through the sale of Common Stock, the purchase price to apply to any such sale of Common Stock and the investor seeking to purchase the Common Stock.

Common Stock issued by the Fund through privately negotiated transactions will be issued at a price equal to the greater of (i) the net asset value per share of the Fund s Common Stock or (ii) at a discount ranging from 0% to 5% of the average daily closing market price of the Fund s shares of Common Stock at the close of business on the two business days preceding the date upon which shares of Common Stock are sold pursuant to the privately negotiated transaction. The applicable discount will be determined by the Fund on a transaction-by-transaction basis. See Plan of Distribution Distribution Through Privately Negotiated Transactions.

Special Risk Considerations

Investment in the Fund involves special risk considerations, which are summarized below. The Fund is designed as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program. See Risk Factors for a more complete discussion of the special risk considerations of an investment in the Fund.

Investment and Market Risk. An investment in the Fund s Common Stock is subject to investment risk, including the possible loss of the entire principal amount that you invest. Your investment in Common Stock represents an indirect investment in the municipal securities owned by the Fund, which generally trade in the over-the-counter markets. Your Common Stock at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions. See Risk Factors Investment and Market Risk.

Recent Market Conditions. The financial crisis in the U.S. and many foreign economies over the past several years, including the European sovereign debt and banking crises, has resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both domestic and foreign. Liquidity in some markets has decreased; credit has become scarcer worldwide; and the values of some sovereign debt and of securities of issuers that hold that sovereign debt have fallen. These market conditions may continue or deteriorate further and may add significantly to the risk of short-term volatility in the Fund. In addition, global economies and financial markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country or region might adversely impact issuers in a different country or region. Because the situation is widespread and largely unprecedented, it may be unusually difficult to identify both risks and opportunities using past models of the interplay of market forces, or to predict the duration of these market conditions.

In response to the crisis, the U.S. and other governments and the Federal Reserve and certain foreign central banks have taken steps to support the financial markets. Where economic conditions are recovering, they are nevertheless perceived as still fragile. Withdrawal of government support, failure of efforts in response to the crisis, or investor perception that such efforts are not succeeding could adversely impact the value and liquidity of certain securities.

The severity or duration of these conditions may also be affected by policy changes made by governments or quasigovernmental organizations. Changes in market conditions will not have the same impact on all types of securities.

See Risk Factors Recent Market Conditions and Risk Factors Municipal Securities Market Risk.

Economic and Political Events Risk. The Fund may be more sensitive to adverse economic, business or political developments if it invests a substantial portion of its assets in the bonds of similar projects (such as those relating to the education, health care, housing, transportation, or utilities industries), industrial development bonds, or in particular types of municipal securities (such as general obligation bonds, private activity bonds or moral obligation bonds). Such developments may adversely affect a specific industry or local political and economic conditions, and thus may lead to declines in the bonds creditworthiness and value.

Market Discount from Net Asset Value. Shares of closed-end investment companies like the Fund have during some periods traded at prices higher than net asset value and have during other periods traded at prices lower than net asset value. The Fund cannot predict whether shares of Common

Stock will trade at, above or below net asset value. This characteristic is a risk separate and distinct from the risk that the Fund s net asset value could decrease as a result of investment activities. Investors bear a risk of loss to the extent that the price at which they sell their shares is lower in relation to the Fund s net asset value than at the time of purchase, assuming a stable net asset value. Proceeds from the sale of shares of Common Stock in this offering will be reduced by shareholder transaction costs (if applicable, which vary depending on the offering method used). Depending on the premium of the shares of Common Stock at the time of any offering of Common Stock hereunder, the Fund s net asset value may be reduced by an amount up to the offering costs borne by the Fund (estimated to be an additional 0.56% of the offering price assuming a Common Stock share offering price of $10.29 (the Fund s closing price on the NYSE on May 16, 2013)).

The net asset value per share of Common Stock will be reduced by costs associated with any future issuances of Common Stock. Common Stock is designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes. See Risk Factors Market Discount from Net Asset Value.

Credit and Below Investment Grade Risk. Credit risk is the risk that one or more municipal securities in the Fund s portfolio will decline in price, or the issuer thereof will fail to pay interest or principal when due, because the issuer experiences a decline in its financial status. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates. The Fund may invest up to 20% (measured at the time of investment) of its Managed Assets in municipal securities that are rated below investment grade or that are unrated but judged to be of comparable quality by Nuveen Asset Management; provided, that no more than 10% of the Fund s Managed Assets may be invested in municipal securities rated below B-/B3 or that are unrated but judged to be of comparable quality by Nuveen Asset Management. If a municipal security satisfies the rating requirements described above at the time of investment and is subsequently downgraded below that rating, the Fund will not be required to dispose of the security. If a downgrade occurs, Nuveen Asset Management will consider what action, including the sale of the security, is in the best interests of the Fund and its shareholders. This means that the Fund may invest in municipal securities that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the time of acquisition (such securities are commonly referred to as distressed securities). Municipal securities of below investment grade quality are predominately speculative with respect to the issuer s capacity to pay interest and repay principal when due, and are susceptible to default or decline in market value due to adverse economic and business developments, and are commonly referred to as junk bonds. Also, to the extent that the rating assigned to a municipal security in the Fund s portfolio is downgraded by any NRSRO, the market price and liquidity of such security may be adversely affected. The market values for municipal securities of below investment grade quality tend to be volatile, and these securities are less liquid than investment grade municipal securities. For these reasons, an investment in the Fund compared with a portfolio consisting solely of investment grade securities, may experience the following:

- increased price sensitivity resulting from changing interest rates and/or a deteriorating economic environment;
- greater risk of loss due to default or declining credit quality;
- adverse issuer specific events that are more likely to render the issuer unable to make interest and/or principal payments; and
- the possibility that a negative perception of the below investment grade market develops, resulting in the price and liquidity of below investment grade securities becoming depressed, and this negative perception could last for a significant period of time.

See Risk Factors Credit and Below Investment Grade Risk.

Interest Rate Risk. Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the municipal securities in the Fund s portfolio will decline in value because of increases in market interest rates. As interest rates decline, issuers of municipal securities may prepay principal earlier than scheduled, forcing the Fund to reinvest in lower-yielding securities and potentially reducing the Fund s income. As interest rates increase, slower than expected principal payments may extend the average life of securities, potentially locking in a below-market interest rate and reducing the Fund s value. Currently, market interest rates are at or near historically low levels. In typical market interest rate environments, the prices of longer-term municipal securities generally fluctuate more than prices of shorter-term municipal securities as interest rates change. Because the Fund will invest primarily in long-term municipal securities, the Common Stock net asset value and market price per share will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in shorter-term municipal securities. Because the values of lower-rated and comparable unrated debt securities are affected both by credit risk and interest rate risk, the price movements of such lower grade securities in response to changes in interest rates typically have not been highly correlated to the fluctuations of the prices of investment grade quality securities in response to changes in market interest rates. The Fund s investments in interest rate floating securities, as described herein, will tend to increase Common Stock interest rate risk. See Risk Factors Interest Rate Risk.

Municipal Securities Market Risk. The amount of public information available about the municipal securities in the Fund s portfolio is generally less than that for corporate equities or bonds, and the investment performance of the Fund may therefore be more dependent on the analytical abilities of Nuveen Asset Management than if the Fund were a stock fund or taxable bond fund. The secondary market for municipal securities, particularly the below investment grade bonds in which the Fund may invest, also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund s ability to sell its bonds at attractive prices. See Risk Factors Municipal Securities Market Risk and Risk Factors Special Risks Related to Certain Municipal Obligations.

Concentration in California Issuers. The Fund s policy of investing in municipal securities of issuers located in California makes the Fund more susceptible to the adverse economic, political or regulatory occurrences affecting such issuers.

Risks Specific to California. See Risk Factors and Appendix A of this Prospectus (Factors Affecting Municipal Securities in California).

Reinvestment Risk. Reinvestment risk is the risk that income from the Fund s portfolio will decline if and when the Fund invests the proceeds from matured, traded or called bonds at market interest rates that are below the portfolio s current earnings rate. A decline in income could affect the Common Stock s market price or your overall returns. See Risk Factors Reinvestment Risk.

Tax Risk. To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, among other things, the Fund must derive in each taxable year at least 90% of its gross income from certain prescribed sources and satisfy a diversification test on a quarterly basis. If the Fund fails to satisfy the qualifying income or diversification requirements in any taxable year, the Fund may be eligible for relief provisions if the failures are due to reasonable cause and not willful neglect and if a penalty tax is paid with respect to each failure to satisfy the applicable requirements. Additionally, relief is provided for certain de minimis failures of the diversification requirements where the Fund corrects the failure within a specified period. In order to be eligible for the relief provisions with respect to a failure to meet the diversification requirements, the Fund may be required to dispose of certain assets. If these relief provisions were not available to the Fund and it were to fail to qualify for treatment as a regulated investment company for a taxable year, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate rates without any deduction for distributions to stockholders, and such distributions would be taxable as ordinary dividends to the extent of the Fund s current and accumulated earnings and profits.

To qualify to pay exempt-interest dividends, which are treated as items of interest excludable from gross income for federal income tax purposes, at least 50% of the value of the total assets of the Fund must consist of obligations exempt from regular income tax as of the close of each quarter of the Fund s taxable year. If the proportion of taxable investments held by the Fund exceeds 50% of the Fund s total assets as of the close of any quarter of any Fund taxable year, the Fund will not satisfy for that taxable year the general eligibility test that otherwise permits it to pay exempt-interest dividends.

The value of the Fund s investments and its net asset value may be adversely affected by changes in tax rates and policies. Because interest income from municipal securities is normally not subject to regular federal income taxation, the attractiveness of municipal securities in relation to other investment alternatives is affected by changes in federal income tax rates or changes in the tax-exempt status of interest income from municipal securities. Any proposed or actual changes in such rates or exempt status, therefore, can significantly affect the demand for and supply, liquidity and marketability of municipal securities. This could in turn affect the Fund s net asset value and ability to acquire and dispose of municipal securities at desirable yield and price levels. Additionally, the Fund is not a suitable investment for individual retirement accounts, for other tax-exempt or tax-deferred accounts or for investors who are not sensitive to the federal income tax consequences of their investments.

Leverage Risk. The use of financial leverage created through borrowing or any future issuance of preferred shares creates an opportunity for increased Common Stock net income and returns, but also creates special risks for Common Stockholders. There is no assurance that the Fund s leveraging strategy will be successful. The risk of loss attributable to the Fund s use of leverage is borne by Common Stockholders. The Fund s use of financial leverage can result in a greater decrease in net asset values in declining markets. The Fund s use of financial leverage similarly can magnify the impact of changing market conditions on Common Stock market prices. See Risk Factors Leverage Risk.

The Fund has issued preferred shares in the past, but as of the date of this Prospectus, no preferred shares were outstanding. The Fund may again in the future issue certain types of preferred securities to increase the Fund s leverage.

Furthermore, the amount of fees paid to NFALLC (which in turn pays a portion of its fees to Nuveen Asset Management) for investment advisory services will be higher if the Fund uses leverage because the fees will be calculated based on the Fund s Managed Assets this may create an incentive for NFALLC and Nuveen Asset Management to leverage the Fund.

The Fund may invest in the securities of other investment companies, which may themselves be leveraged and therefore present similar risks to those described above and magnify the Fund s leverage risk.

See Risk Factors Leverage Risk and Use of Leverage.

Inverse Floating Rate Securities Risk. The Fund may invest in inverse floating rate securities. Typically, inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a tender option bond trust) formed by a third party sponsor for the purpose of holding municipal bonds. See The Fund s Investments Municipal Securities Inverse Floating Rate Securities. In general, income on inverse floating rate securities will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal. In addition, inverse floating rate securities may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Fund s investment. As a result, the market value of such securities generally will be more volatile than that of fixed rate securities.

The Fund may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund. In Nuveen Asset Management s discretion, the Fund may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Fund may enter into such recourse agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the special purpose trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the special purpose trust in the event that the municipal obligation held in the trust has declined in value. Such an agreement would require the Fund to reimburse the third-party sponsor of the trust, upon termination of the trust issuing the inverse floater, the difference between the liquidation value of the bonds held in the trust and the principal amount due to the holders of floating rate interests. In such instances, the Fund may be at risk of loss that exceeds its investment in the inverse floating rate securities.

The Fund s investments in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund may be highly leveraged. The structure and degree to which the Fund s inverse floating rate securities are highly leveraged will vary based upon a number of factors, including the size of the trust itself and the terms of the underlying municipal security. An inverse floating rate security generally is considered highly leveraged if the principal amount of the short-term floating rate interests issued by the related special purpose trust is in excess of three times the principal amount of the inverse floating rate securities owned by the trust (the ratio of the principal amount of such short-term floating rate interests to the principal amount of the inverse floating rate securities is referred to as the gearing). In the event of a significant decline in the value of an underlying security, the Fund may suffer losses in excess of the amount of its investment of the Fund s taxable year. If the proportion of taxable investments held by the Fund exceeds 50% of the Fund s total assets as of the close of any quarter of any Fund taxable year, the Fund will not for that taxable year satisfy the general eligibility test that otherwise permits it to pay exempt-interest dividends for the taxable year.

The Fund s investment in inverse floating rate securities will create effective leverage, which will create an opportunity for increased Common Stock net income and returns, but will also create the possibility that Common Stock long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund.

Inverse floating rate securities have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in a special purpose trust. The market price of inverse floating rate securities is more volatile than the underlying securities due to leverage. The leverage attributable to such inverse floating rate securities may be called away on relatively short notice and therefore may be less permanent than more traditional forms of leverage. In certain circumstances, the likelihood of an increase in the volatility of net asset value and market price of the Common Stock may be greater for a fund (like the Fund) that relies primarily on inverse floating rate securities to achieve a desired effective leverage ratio. The Fund may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Fund portfolio holdings in certain circumstances, including, but not limited to, the following:

If the Fund has a need for cash and the securities in a special purpose trust are not actively trading due to adverse market conditions;

If special purpose trust sponsors (as a collective group or individually) experience financial hardship and consequently seek to terminate their respective outstanding special purpose trusts; and

If the value of an underlying security declines significantly (to a level below the notional value of the floating rate securities issued by the trust) and if additional collateral has not been posted by the Fund.

See Risk Factors Inverse Floating Rate Securities Risk.

Inflation Risk. Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Common Stock and distributions can decline. See Risk Factors Inflation Risk.

Derivatives Risk, Including the Risk of Swaps. The Fund s use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the investments underlying the derivatives. Whether the Fund s use of derivatives is successful will depend on, among other things, if Nuveen Asset Management correctly forecasts market values, interest rates and other applicable factors. If Nuveen Asset Management incorrectly forecasts these and other factors, the investment performance of the Fund will be unfavorably affected. In addition, the derivatives market is largely unregulated. It is possible that developments in the derivatives market could adversely affect the Fund s ability to successfully use derivative instruments.

The Fund may enter into various types of derivatives transactions, including futures, options, swaps (including credit default swaps, interest rate swaps and total return swaps), among others. Like most derivative instruments, the use of derivatives is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. In addition, the use of derivatives requires an understanding by Nuveen Asset Management not only of the referenced asset, rate or index, but also of the derivative contract itself and the markets in which they trade. Successful implementation of most hedging strategies would generate taxable income. The derivatives market is subject to a changing regulatory environment. It is possible that regulatory or other developments in the derivatives market could adversely affect the Fund s ability to successfully use derivative instruments. See Risk Factors Derivatives Risk, Including the Risk of Swaps, Risk Factors Counterparty Risk, Risk Factors Hedging Risk, Risk Factors Tax Risk and the SAI.

Counterparty Risk. Changes in the credit quality of the companies that serve as the Fund s counterparties with respect to derivatives, insured municipal securities or other transactions supported by another party s credit will affect the value of those instruments. Certain entities that have served as counterparties in the markets for these transactions have recently incurred significant financial hardships including bankruptcy and losses as a result of exposure to sub-prime mortgages and other lower quality credit investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such hardships have reduced these entities capital and called into question their continued ability to perform their obligations under such transactions. By using such derivatives or other transactions, the Fund assumes the risk that its counterparties could experience similar financial hardships. See Risk Factors Counterparty Risk.

Hedging Risk. The Fund s use of derivatives or other transactions to reduce risks involves costs and will be subject to Nuveen Asset Management s ability to predict correctly changes in the relationships of such hedge instruments to the Fund s portfolio holdings or other factors. No assurance can be given that Nuveen Asset Management s judgment in this respect will be correct. In addition, no assurance can be given that the Fund will enter into hedging or other transactions at times or under circumstances in which it may be advisable to do so. See Risk Factors Hedging Risk.

Potential Conflicts of Interest Risk. NFALLC and Nuveen Asset Management each provide a wide array of portfolio management and other asset management services to a mix of clients and may engage in ordinary course activities in which their respective interests or those of their clients may compete or conflict with those of the Fund. For example, NFALLC and Nuveen Asset Management may provide investment management services to other funds and accounts that follow investment objectives similar to those of the Fund. In certain circumstances, and subject to its fiduciary obligations under the Investment Advisers Act of 1940, Nuveen Asset Management may have to allocate a limited investment opportunity among its clients, which include closed-end funds, open-end funds and other commingled funds. NFALLC and Nuveen Asset Management have each adopted policies and procedures designed to address such situations and other potential conflicts of interests. For additional information about potential conflicts of interest, and the way in which NFALLC and Nuveen Asset Management address such conflicts, please see the SAI.

Anti-Takeover Provisions. The Fund s Articles of Incorporation (the Articles) and the Fund s By-Laws (the By-Laws) include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status. These provisions could have the effect of depriving the Common Stockholders of opportunities to sell their shares of Common Stock at a premium over the then current market price of the Common Stock. See Certain Provisions in the Articles of Incorporation Anti-Takeover Provisions and Risk Factors Anti-Takeover Provisions.

In addition, an investment in the Fund s Common Stock raises other risks, which are more fully disclosed in this Prospectus. See Risk Factors.

Distributions

The Fund pays monthly cash distributions to Common Stockholders at a level rate (stated in terms of a fixed cents per Common Stock dividend rate) based on the projected performance of the Fund. The Fund s ability to maintain a level Common Stock dividend rate will depend on a number of factors. As portfolio and market conditions change, the rate of dividends on the Common Stock and the Fund s dividend policy could change. For each taxable year, the Fund will distribute all or substantially all of its net investment income. In addition, the Fund intends to distribute, at least annually, all or substantially all of its net capital gain (which is the excess of net long-term capital gain over net short term capital loss) and taxable ordinary income, if any, to Common Stockholders so long as the net capital gain and taxable ordinary income are not necessary to pay any interest and required principal payments on borrowings. You may elect to reinvest automatically some or all of your distributions in additional shares of Common Stock under the Fund s Dividend Reinvestment Plan.

The Fund might not distribute all or a portion of any net capital gain for a taxable year. If the Fund does not distribute all of its net capital gain for a taxable year, it will pay federal income tax on the retained gain. Each Common Stockholder of record as of the end of the Fund s taxable year (i) will include in income for federal income tax purposes, as long-term capital gain, his or her share of the retained gain, (ii) will be deemed to have paid his or her proportionate share of tax paid by the Fund on such retained gain, and (iii) will be entitled to an income tax credit or refund for that share of the tax. The Fund will treat the retained capital gain amount as a substitute for equivalent cash distributions. See Distributions and Dividend Reinvestment Plan.

The Fund reserves the right to change its distribution policy and the basis for establishing the rate of its monthly distributions at any time.

Custodian and Transfer Agent

State Street Bank and Trust Company serves as custodian and transfer agent of the Fund s assets. See Custodian and Transfer Agent.

Special Tax Considerations

The Fund has not established any limit on the percentage of its portfolio that may be invested in municipal bonds subject to the alternative minimum tax provisions of federal tax law, and the Fund expects that a substantial portion of the income it produces will be includable in alternative minimum taxable income. If you are, or as a result of investment in the Fund would become, subject to the federal alternative minimum tax, the Fund may not be a suitable investment for you. In addition, distributions of ordinary taxable income (including any net short-term capital gain) will be taxable to shareholders as ordinary income (and not eligible for favorable taxation as qualified dividend income), and capital gain dividends will be taxable as long-term capital gains. See Tax Matters.

Voting Rights

All shares of Common Stock have equal non-cumulative voting rights.

SUMMARY OF FUND EXPENSES

The table shows the expenses of the Fund as a percentage of the average net assets applicable to Common Stock, and not as a percentage of total assets or Managed Assets.

Stockholder Transaction Expenses (as a percentage of offering price)	
Maximum Sales Charge	4.00%
Offering Costs Borne by the Fund(1)	0.56%

	As a Percentage of Net Assets Attributable to Common Stock(2)
Annual Expenses	
Management Fees	0.53%
Interest and Related Expenses from Inverse Floaters(3)	0.01%
Other Expenses(4)	0.10%
Annual Expenses	0.64%

(1) Assuming a Common Stock offering price of $10.29 (the Fund s closing price on the NYSE on May 16, 2013).

(2) Stated as percentage of average net assets attributable to shares of Common Stock for the fiscal year ended February 28, 2013.

(3) Interest and Related Expenses from Inverse Floaters also includes interest expense that arises because accounting rules require the Fund to treat interest paid by trusts issuing certain inverse floating rate investments held by the Fund as having been paid (indirectly) by the Fund. Because the Fund also recognizes a corresponding amount of interest income (also indirectly), the Fund s net asset value, net investment income, and total return are not affected by this accounting treatment. The actual Interest and Related Expenses from Inverse Floaters incurred in the future may be higher or lower.

(4) Other Expenses are estimated based on actual expenses from the prior fiscal year.

The purpose of the table above is to help you understand all fees and expenses that you, as a Common Stockholder, would bear directly or indirectly. See Management of the Fund Investment Adviser.

Examples

The following examples illustrate the expenses (including the applicable transaction fees, if any, and estimated offering costs of $5.60) that a stockholder would pay on a $1,000 investment that is held for the time periods provided in the table. Each example assumes that all dividends and other distributions are reinvested in the Fund and that the Fund s Annual Expenses, as provided above, remain the same. The examples also assume a 5% annual return.(1)

Example # 1 (At-the-Market Transaction)

The following example assumes a transaction fee of 1.00%, as a percentage of the offering price.

1 Year	3 Years	5 Years	10 Years
$22	$ 36	$ 51	$ 94

Example # 2 (Underwriting Syndicate Transaction)

The following example assumes a transaction fee of 4.00%, as a percentage of the offering price.

1 Year	3 Years	5 Years	10 Years
$52	$ 65	$ 80	$ 122

Example # 3 (Privately Negotiated Transaction)

The following example assumes there is no transaction fee.

1 Year	3 Years	5 Years	10 Years
$12	$ 26	$ 41	$ 85

The examples should not be considered a representation of future expenses. Actual expenses may be greater or less than those shown above.

(1) The examples assume that all dividends and distributions are reinvested at Common Stock net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund s actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

FINANCIAL HIGHLIGHTS

The following Financial Highlights table is intended to help a prospective investor understand the Fund s financial performance for the periods shown. Certain information reflects financial results for a single share of Common Stock of the Fund. The total returns in the table represent the rate an investor would have earned or lost on an investment in shares of Common Stock of the Fund (assuming reinvestment of all dividends). The information with respect to the fiscal year ended February 28, 2013 has been audited by Ernst & Young LLP, whose report for the fiscal year ended February 28, 2013, along with the financial statements of the Fund including the Financial Highlights for each of the periods indicated therein, are included in the Fund s 2013 Annual Report. A copy of the 2013 Annual Report may be obtained from www.sec.gov or by visiting www.nuveen.com. The information contained in, or that can be accessed through, the Fund s website is not part of this Prospectus. Past results are not indicative of future performance.

The following per share data and ratios have been derived from information provided in the financial statements.

Selected data for a share of Common Stock outstanding throughout each period:

	Year Ended February 28/29					Year Ended August 31					
	2013	2012	2011	2010	2009(b)	2008	2007	2006	2005	2004	2003
Per Share Operating Performance											
Beginning Net Asset Value	$ 10.08	$ 9.07	$ 9.53	$ 8.87	$ 9.70	$ 9.87	$ 10.14	$ 10.33	$ 10.20	$ 9.93	$ 10.27
Investment Operations:											
Net Investment Income (Loss)	0.47	0.48	0.47	0.47	0.23	0.47	0.45	0.46	0.47	0.48	0.50
Net Realized/ Unrealized Gain (Loss)	0.37	0.99	(0.47)	0.65	(0.70)	(0.18)	(0.23)	(0.13)	0.21	0.34	(0.32)
Total	0.84	1.47	0.00	1.12	(0.47)	0.29	0.22	0.33	0.68	0.82	0.18
Less Distributions:											
From Net Investment Income	(0.47)	(0.46)	(0.46)	(0.46)	(0.23)	(0.44)	(0.46)	(0.46)	(0.47)	(0.48)	(0.51)
From Accumulated Net Realized Gains	0.00	0.00	0.00	0.00	(0.13)	(0.02)	(0.03)	(0.06)	(0.08)	(0.07)	(0.01)
Total	(0.47)	(0.46)	(0.46)	(0.46)	(0.36)	(0.46)	(0.49)	(0.52)	(0.55)	(0.55)	(0.52)
Ending Net Asset Value	$ 10.45	$ 10.08	$ 9.07	$ 9.53	$ 8.87	$ 9.70	$ 9.87	$ 10.14	$ 10.33	$ 10.20	$ 9.93
Ending Market Value	$ 10.45	$ 10.13	$ 8.36	$ 9.00	$ 8.39	$ 9.63	$ 9.65	$ 9.67	$ 9.92	$ 9.27	$ 9.10
Total Returns:											
Based on Market Value(a)	7.99%	27.44%	(2.32)%	12.83%	(9.08)%	4.70%	4.74%	2.85%	13.33%	8.02%	(3.55)%
Based on Net Asset Value(a)	8.48%	16.58%	(0.13)%	12.85%	(4.73)%	2.94%	2.11%	3.34%	6.82%	8.40%	1.73%

Ratios/Supplemental Data											
Ending Net Assets (000)	$ 264,094	$ 254,563	$ 228,948	$ 240,598	$ 223,949	$ 244,985	$ 249,022	$ 255,868	$ 260,782	$ 257,550	$ 250,749
Ratios to Average Net Assets											
Expenses (c)	0.64%	0.65%	0.65%	0.68%	0.72%*	0.69%	0.65%	0.64%	0.63%	0.65%	0.66%
Net Investment Income (Loss)	4.55%	4.98%	4.92%	5.03%	5.30%*	4.71%	4.49%	4.51%	4.54%	4.70%	4.84%
Portfolio Turnover Rate	16%	8%	14%	6%	12%	22%	8%	20%	4%	28%	24%

(a) Total Return Based on Market Value is the combination of changes in the market price per share and the effect of reinvested dividend income and reinvested capital gains distributions, if any, at the average price paid per share at the time of reinvestment. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending market price. The actual reinvestment for the last dividend declared in the period may take place over several days, and in some instances may not be based on the market price, so the actual reinvestment price may be different from the price used in the calculation. Total returns are not annualized.

Total Return Based on Net Asset Value is the combination of changes in net asset value, reinvested dividend income at net asset value and reinvested capital gains distributions at net asset value, if any. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending net asset value. The actual reinvest price for the last dividend declared in the period may often be based on the Fund s market price (and not its net asset value), and therefore may be different from the price used in the calculation. Total returns are not annualized.

(b) For the six months ended February 28, 2009.

(c) The expense ratios reflect, among other things, the interest expense deemed to have been paid by the Fund on the floating rate certificates issued by the special purpose trusts for the self-deposited inverse floaters held by the Fund, where applicable, as described in Footnote 1 General Information and Significant Accounting Policies, Inverse Floating Rate Securities, in the most recent shareholder report, as follows:

Year Ended 2/28-2/29:	
2013	0.01%
2012	0.01
2011	0.01
2010	0.01
2009(b)	0.02*
Year Ended 8/31:	
2008	0.04
2007	0.03
2006	
2005	
2004	
2003	

* Annualized.

TRADING AND NET ASSET VALUE INFORMATION

The following table shows for the periods indicated: (i) the high and low sales prices for the shares of Common Stock reported as of the end of the day on the NYSE, (ii) the high and low net asset values of the shares of Common Stock, and (iii) the high and low of the premium/(discount) to net asset value (expressed as a percentage) of the shares of Common Stock.

	Market Price		Net Asset Value		Premium/(Discount)	
Fiscal Quarter Ended	**High**	**Low**	**High**	**Low**	**High**	**Low**
February 2013	$ 10.59	$ 10.00	$ 10.62	$ 10.37	0.96%	(4.03)%
November 2012	$ 10.70	$ 10.25	$ 10.60	$ 10.25	3.09%	(3.12)%
August 2012	$ 10.82	$ 10.07	$ 10.36	$ 10.17	4.54%	(1.18)%
May 2012	$ 10.38	$ 9.35	$ 10.25	$ 9.97	1.57%	(6.41)%
February 2012	$ 10.15	$ 9.21	$ 10.10	$ 9.66	0.79%	(5.77)%
November 2011	$ 9.25	$ 8.87	$ 9.82	$ 9.58	(4.34)%	(9.02)%
August 2011	$ 9.02	$ 8.61	$ 9.66	$ 9.33	(4.56)%	(10.68)%
May 2011	$ 8.90	$ 8.29	$ 9.30	$ 8.95	(4.30)%	(8.28)%

The net asset value per share, the market price and percentage of premium/(discount) to net asset value per share of the Fund s Common Stock on May 16, 2013 was $10.46, $10.29 and (1.63)%, respectively. As of April 30, 2013, the Fund had 25,283,751 shares of Common Stock outstanding, and net assets applicable to Common Stock of $264,573,313. See Repurchase of Fund Shares; Conversion to Open-End Fund.

THE FUND

The Fund is a diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Minnesota corporation on July 15, 1987 pursuant to the Articles and governed by the laws of the State of Minnesota. Currently, the Fund may issue only common stock. The Fund s Common Stock is traded on the NYSE under the symbol NCA.

The Fund s principal office is located at 333 West Wacker Drive, Chicago, Illinois 60606, and its telephone number is (800) 257-8787.

The following provides information about the Fund s outstanding shares as of April 30, 2013:

Title of Class	**Amount Authorized**	**Amount Held by the Fund or for its Account**	**Amount Redeemed**	**Amount Outstanding**
Common	250,000,000	0		25,283,751

USE OF PROCEEDS

The net proceeds from the issuance of Common Stock hereunder will be invested in accordance with the Fund s investment objectives and policies as stated below. It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds in accordance with the Fund s investment objectives and policies within one month from the date on which the proceeds from an offering are received by the Fund. Pending such investment, it is anticipated that the proceeds will be invested in short-term or long-term securities issued by the U.S. Government and its agencies or instrumentalities or in high-quality, short-term money market instruments. See Risk Factors Leverage Risk and Use of Leverage.

THE FUND S INVESTMENTS

Investment Objectives

The Fund s investment objectives are:

- to provide current income exempt from regular federal and California income taxes; and
- to enhance portfolio value relative to the California municipal bond market by investing in tax-exempt California municipal securities that Nuveen Asset Management believes are underrated or undervalued or that represent municipal market sectors that are undervalued.

Investment Philosophy

Nuveen Asset Management believes that the unique tax treatment of municipal securities and the structural characteristics in the municipal securities market create attractive opportunities to enhance the after-tax total return and diversification of the investment portfolios of taxable investors. Nuveen Asset Management believes that these unique characteristics also present unique risks that may be managed to realize the benefits of the asset class.

After-Tax Income Potential. The primary source of total return from municipal securities comes from the tax-exempt income derived therefrom. Nuveen Asset Management believes that, at acceptable levels of credit risk and maturity principal risk, the municipal securities market offers the potential for higher after-tax income when compared with other fixed income markets.

Managing Multi-Faceted Risks. Risk in the municipal securities market is derived from multiple sources, including credit risk at the issuer and sector levels, structural risks such as call risk, yield curve risk, and legislative and tax-related risks. Nuveen Asset Management believes that managing these risks at both the individual security and Fund portfolio levels is an important element of realizing the after-tax income and total return potential of the asset class.

Opportunities for Diversification. As of December 31, 2012, the municipal securities market aggregated approximately $3.7 trillion, with approximately 55,000 issuers, and a wide array of financing purposes, security terms, offering structures and credit quality.

Market Inefficiencies. Nuveen Asset Management believes that the scale and intricacy of the municipal securities market often results in pricing anomalies and other inefficiencies that can be identified and capitalized on through trading strategies.

Investment Process

Nuveen Asset Management believes that a bottom-up, value-oriented investment strategy that seeks to identify underrated and undervalued securities and sectors is positioned to capture the opportunities inherent in the municipal securities market and potentially outperform the general municipal securities market over time. The primary elements of Nuveen Asset Management s investment process are:

Credit Analysis and Surveillance. Nuveen Asset Management focuses on bottom-up, fundamental analysis of municipal securities issuers. Analysts screen each sector for issuers that meet the fundamental tests of creditworthiness and favor those securities with demonstrable growth potential, solid coverage of debt service and a priority lien on hard assets, dedicated revenue streams or tax resources. As part of Nuveen Asset Management s overall risk management process, analysts actively monitor the credit quality of portfolio holdings.

Sector Analysis. Organized by sector, analysts continually assess the key issues and trends affecting each sector in order to maintain a sector outlook. Evaluating such factors as historical default rates and average credit spreads within each sector, analysts provide top-down analysis that supports decisions to overweight or underweight a given sector in a portfolio.

Diversification. Nuveen Asset Management seeks to invest in a large number of sectors and specific issuers in order to help insulate a portfolio from events that affect any individual industry or credit.

Portfolio managers normally seek to limit exposure to individual credits over the long-term. Portfolio managers also seek to diversify other portfolio level risks, including exposure to calls, and to manage a portfolio s interest rate sensitivity within tolerance bands relative to the relevant benchmark.

Trading Strategies. Through its trading strategies, Nuveen Asset Management seeks to enhance portfolio value by trading to take advantage of inefficiencies found in the municipal market. This may entail selling issues Nuveen Asset Management deems to be overvalued and purchasing issues Nuveen Asset Management considers to be undervalued.

Sell Discipline. Nuveen Asset Management generally sells securities when it (i) determines a security has become overvalued or over-rated, (ii) identifies credit deterioration, or (iii) modifies a portfolio strategy, such as sector allocation. Nuveen Asset Management may also sell securities when such securities exceed the portfolio s diversification targets.

Investment Policies

Under normal circumstances, the Fund will invest its Managed Assets in a portfolio of municipal securities that pay interest that is exempt from regular federal and California income tax. It is a fundamental policy that, under normal circumstances, the Fund will invest at least 80% of its Managed Assets in municipal securities and other related investments, the income from which is exempt from regular federal and California income taxes. The Fund has not established any limit on the percentage of its portfolio that may be invested in municipal bonds subject to the alternative minimum tax provisions of federal tax law, and the Fund expects that a substantial portion of the income it produces will be includable in alternative minimum taxable income. For a discussion of how the federal alternative minimum tax may affect shareholders, see Tax Matters. As a fundamental policy, the Fund will not leverage its capital structure by issuing senior securities such as preferred shares or debt instruments. However, the Fund may borrow for temporary, emergency or other purposes as permitted by the 1940 Act, and invest in certain instruments, including inverse floating rate securities, that have the economic effect of financial leverage.

As a non-fundamental policy, under normal circumstances, the Fund will invest at least 80% of its Managed Assets in investment grade securities that, at the time of investment, are rated within the four highest grades (Baa or BBB or better) by at least one of the nationally recognized statistical rating organizations (NRSRO) that rate such security or are unrated but judged to be of comparable quality by Nuveen Asset Management. Also, as a non-fundamental policy, the Fund may invest up to 20% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade or are unrated but judged to be of comparable quality by Nuveen Asset Management. Additionally, as a non-fundamental policy, no more than 10% of the Fund s Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by Nuveen Asset Management. The Fund may invest up to approximately 15% of its Managed Assets in inverse floating rate securities (discussed below). The economic effect of leverage through the Fund s purchase of inverse floating rate securities creates an opportunity for increased net income and returns, but also creates the possibly that the Fund s long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund. The Fund s policy of investing under normal market circumstances at least 80% of its Managed Assets in municipal securities that, at the time of investment, are investment grade quality is not considered to be fundamental by the Fund and can be changed

without stockholder approval. However, this policy may only be changed by the Fund s Board following the provision of 60 days prior notice to Common Stockholders.

Securities of below investment grade quality (Ba/BB or below) are commonly referred to as junk bonds. Issuers of securities rated Ba/BB or B are regarded as having current capacity to make principal and interest payments but are subject to business, financial or economic conditions which could adversely affect such payment capacity. Municipal securities rated Baa or BBB are considered investment grade securities; municipal securities rated Baa are considered medium grade obligations which lack outstanding investment characteristics and have speculative characteristics, while municipal securities rated BBB are regarded as having adequate capacity to pay principal and interest. Municipal securities rated AAA in which the Fund may invest may have been so rated on the basis of the existence of insurance guaranteeing the timely payment, when due, of all principal and interest. Municipal securities rated below investment grade quality are obligations of issuers that are considered predominately speculative with respect to the issuer s capacity to pay interest and repay principal according to the terms of the obligation and, therefore, carry greater investment risk, including the possibility of issuer default and bankruptcy and increased market price volatility. Municipal securities rated below investment grade tend to be less marketable than higher-quality securities because the market for them is less broad. The market for unrated municipal securities is even narrower. During periods of thin trading in these markets, the spread between bid and asked prices is likely to increase significantly and the Fund may have greater difficulty selling its portfolio securities. The Fund will be more dependent on Nuveen Asset Management s research and analysis when investing in these securities.

The ratings of Standard & Poor s Corporation Ratings Group, a division of The McGraw-Hill Companies, Inc. (S&P), Moody s Investors Service, Inc. (Moody s) and Fitch Ratings, Inc. (Fitch) represent their opinions as to the quality of the municipal securities they rate. It should be emphasized, however, that ratings are general and are not absolute standards of quality. Consequently, municipal securities with the same maturity, coupon and rating may have different yields while obligations of the same maturity and coupon with different ratings may have the same yield.

The foregoing credit quality policies apply only at the time a security is purchased, and the Fund is not required to dispose of a security in the event that an NRSRO downgrades its assessment of the credit characteristics of a particular issuer or that valuation changes of various bonds cause the Fund s portfolio to fail to satisfy those policies. In determining whether to retain or sell such a security, Nuveen Asset Management may consider such factors as Nuveen Asset Management s assessment of the credit quality of the issuer of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other rating agencies. See Municipal Securities below. The Fund may also invest in securities of other open- or closed-end investment companies (up to 10% of its Managed Assets) that invest primarily in municipal bonds of the types in which the Fund may invest directly. See Other Investment Companies below.

Underrated municipal securities are those whose ratings do not, in Nuveen Asset Management s opinion, reflect their true value. Municipal securities may be underrated because of the time that has elapsed since their rating was assigned or reviewed, or because of positive factors that may not have been fully taken into account by rating agencies, or for other similar reasons. Municipal securities that are undervalued or that represent undervalued municipal market sectors are municipal securities that, in Nuveen Asset Management s opinion, are worth more than the value assigned to them in the marketplace. Municipal securities of particular types or purposes (*e.g.*, hospital bonds, industrial revenue bonds or bonds issued by a particular municipal issuer) may be undervalued because there is a temporary excess of supply in that market sector, or because of a general decline in the market price of municipal securities of the market sector for reasons that do not apply to the particular municipal securities that are considered undervalued. The Fund s investment in underrated or undervalued California municipal securities will be based on Nuveen Asset Management s belief that the prices of such municipal securities should ultimately reflect their true value. Accordingly, enhancement of portfolio value relative to the California municipal bond market refers to the Fund s objective of attempting to realize above-average capital appreciation in a rising market, and to experience less than average capital losses in a declining market. Thus, the Fund s secondary investment objective is not intended to suggest that capital appreciation is itself an objective of the Fund. Instead, the Fund seeks enhancement of portfolio value relative to the California municipal bond market by prudent selection of California municipal securities, regardless of which direction the market may move.

Any capital appreciation realized by the Fund will generally result in the distribution of taxable capital gains to Common Stockholders. The Fund has not established any limit on the percentage of its portfolio that may be invested in municipal bonds subject to the alternative minimum tax provisions of federal tax law, and the Fund expects that a substantial portion of the income it produces will be includable in alternative minimum taxable income.

The Fund will primarily invest in California municipal securities with long-term maturities in order to maintain a weighted average maturity of at least 15, but the average weighted maturity of obligations held by the Fund may be shortened, depending on market conditions. As of April 30, 2013, the weighted average maturity of the Fund s portfolio was 19.70 years. As a result, the Fund s portfolio at any given time may include both long-term and intermediate-term California municipal securities. Moreover, during temporary defensive periods (*e.g.*, times when, in NFALLC s opinion, temporary imbalances of supply and demand or other temporary dislocations in the tax-exempt bond market adversely affect the price at which long-term or intermediate-term municipal securities are available), and in order to keep the Fund s cash fully invested, the Fund may invest any percentage of its net assets in short-term investments including high quality, short-term debt securities that may be either tax-exempt or taxable (or in securities of other open- or closed-end investment companies that invest primarily in municipal securities of the types in which the Fund may invest directly). The Fund may not achieve its investment objective during such period. Investment in taxable short-term investments would result in a portion of your dividends being subject to regular federal or California income tax, and if the proportion of taxable investments exceeded 50% of the Fund s total assets as of the close of any quarter of the Fund s taxable year, the Fund would not satisfy the general eligibility test that would permit it to pay exempt-interest dividends for that taxable year. Such transactions will be used solely to reduce risk.

The Fund may purchase municipal securities that are additionally secured by insurance, bank credit agreements, or escrow accounts. The credit quality of companies which provide such credit enhancements may affect the value of those securities. Although the insurance feature may reduce certain financial risks, the premiums for insurance and the higher market price paid for insured obligations may reduce the Fund s income. The insurance feature does not guarantee the market value of the insured obligations, and the effectiveness and value of the insurance itself is dependent on the continued creditworthiness of the insurer.

Obligations of issuers of municipal securities are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the Bankruptcy Reform Act of 1978. In addition, the obligations of such issuers may become subject to the laws enacted in the future by Congress, state legislatures or referenda extending the time for payment of principal or interest, or both, or imposing other constraints upon enforcement of such obligations or upon municipalities to levy taxes. There is also the possibility that, as a result of legislation or other conditions, the power or ability of any issuer to pay, when due, the principal of and interest on its municipal securities may be materially affected.

The Fund cannot change its investment objectives without the approval of the holders of a majority of the outstanding shares of Common Stock. See Description of Shares Common Stock.

As of February 28, 2013, approximately 83% of the Fund s Managed Assets were invested in municipal securities rated investment grade by an NRSRO (including S&P, Moody s or Fitch). The relative percentages of the value of the investments attributable to investment grade municipal securities and to below investment grade municipal securities could change over time as a result of rebalancing the Fund s assets by Nuveen Asset Management, market value fluctuations, issuance of additional shares and other events.

The Fund is diversified for purposes of the 1940 Act. Consequently, as to 75% of its assets, the Fund may not invest more than 5% of its total assets in the securities of any single issuer.

Municipal Securities

General. The Fund may invest in various municipal securities, including municipal bonds and notes, other securities issued to finance and refinance public projects, and other related securities and derivative instruments creating exposure to municipal bonds, notes and securities that provide for the payment of interest income that is exempt from regular federal income tax (as previously defined, municipal securities). Municipal securities are often issued by state and local governmental entities to finance or refinance public projects such as roads, schools, and water supply systems. Municipal securities may also be issued on behalf of private entities or for private activities, such as housing, medical and educational facility construction, or for privately owned transportation, electric utility and pollution control projects. Municipal securities may be issued on a long-term basis to provide permanent financing. The repayment of such debt may be secured generally by a pledge of the full faith and credit taxing power of the issuer, a limited or special tax, or any other revenue source, including project revenues, which may include tolls, fees and other user charges, lease payments and mortgage payments. Municipal securities may also be issued to finance projects on a short-term interim basis, anticipating repayment with the proceeds of the later issuance of long-term debt. The Fund may purchase municipal securities in the form of bonds, notes, leases or certificates of participation; structured as callable or non-callable; with payment forms including fixed coupon, variable rate, zero coupon, capital appreciation bonds, tender option bonds, and residual interest bonds or inverse floating rate securities; or acquired through investments in pooled vehicles, partnerships or other investment companies. Inverse floating rate securities are securities that pay interest at rates that vary inversely with changes in prevailing short-term tax-exempt interest rates and represent a leveraged investment in an underlying municipal security, which could have the economic effect of financial leverage.

California municipal securities are municipal securities that are issued by the State of California and cities and local authorities in the State of California, and bear interest that, in the opinion of bond counsel to the issuer, is exempt from both regular federal and California income taxes, although such interest may be subject to the Federal alternative minimum tax. The Fund will invest primarily in California municipal securities that are issued by the State of California and cities and local authorities in the State of California, except that the Fund may invest not more than 10% of its net assets in municipal securities issued by United States possessions or territories, which also bear interest that is exempt from both regular federal and California income taxes and are therefore considered to be California municipal securities.

Municipal securities are either general obligation or revenue bonds and typically are issued to finance public projects (such as roads or public buildings), to pay general operating expenses, or to refinance outstanding debt.

Municipal securities may also be issued on behalf of private entities or for private activities, such as housing, medical and educational facility construction, or for privately owned industrial development and pollution control projects. General obligation bonds are backed by the full faith and credit, or taxing authority, of the issuer and may be repaid from any revenue source; revenue bonds may be repaid only from the revenues of a specific facility or source. The Fund may also purchase municipal securities that represent lease obligations, municipal notes, pre-refunded municipal securities, private activity bonds, tender option bonds and other related securities and derivative instruments that create exposure to municipal bonds, notes and securities and that provide for the payment of interest income that is exempt from regular federal and California income tax.

The yields on municipal securities depend on a variety of factors, including prevailing interest rates and the condition of the general money market and the municipal bond market, the size of a particular offering, the maturity of the obligation and the rating of the issue. The market value of municipal securities will vary with changes in interest rate levels and as a result of changing evaluations of the ability of their issuers to meet interest and principal payments.

A municipal security s market value generally will depend upon its form, maturity, call features, and interest rate, as well as the credit quality of the issuer, all such factors examined in the context of the municipal securities market and interest rate levels and trends.

The Fund will primarily invest in California municipal securities with long-term maturities in order to maintain a weighted average maturity of at least 15 years, but the weighted average maturity of obligations held by the Fund may be shorter, depending on market conditions. In comparison to maturity (which is the date on which a debt instrument ceases and the issuer is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result of changes in market rates of interest, based on the weighted average timing of the instrument s expected principal and interest payments. Duration differs from maturity in that it considers a security s yield, coupon payments, principal payments and call features in addition to the amount of time until the security finally matures. As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. For example, the price of a bond with an effective duration of two years will rise (fall) two percent for every one percent decrease (increase) in its yield, and the price of a five-year duration bond will rise (fall) five percent for a one percent decrease (increase) in its yield. In general, a portfolio of securities with a longer duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter duration. As of March 31, 2013, the average fund duration was 8.02 years.

Municipal Leases and Certificates of Participation. The Fund also may purchase municipal securities that represent lease obligations and certificates of participation in such leases. These carry special risks because the issuer of the securities may not be obligated to appropriate money annually to make payments under the lease. A municipal lease is an obligation in the form of a lease or installment purchase which is issued by a state or local government to acquire equipment and facilities. Income from such obligations is generally exempt from state and local taxes in the state of issuance. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipment without meeting the constitutional and statutory requirements for the issuance of debt. The debt issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of non-appropriation clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event the issuer is prevented from maintaining occupancy of the leased premises or utilizing the leased equipment or facilities. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of non-appropriation or foreclosure might prove difficult, time consuming and costly, and result in a delay in recovering, or the failure to recover fully, the Fund s original investment. To the extent that the Fund invests in unrated municipal leases or participates in such leases, the credit quality rating and risk of cancellation of such unrated leases will be monitored on an ongoing basis. In order to reduce this risk, the Fund will only purchase municipal securities representing lease obligations where Nuveen Asset Management believes the issuer has a strong incentive to continue making appropriations until maturity.

A certificate of participation represents an undivided interest in an unmanaged pool of municipal leases, an installment purchase agreement or other instruments. The certificates are typically issued by a municipal agency, a trust or other entity that has received an assignment of the payments to be made by the state or political subdivision under such leases or installment purchase agreements. Such certificates provide the Fund with the right to a pro rata undivided interest in the underlying municipal securities. In addition, such participations generally provide the Fund with the right to demand payment, on not more than seven days notice, of all or any part of the Fund s participation interest in the underlying municipal securities, plus accrued interest.

Municipal Notes. Municipal securities in the form of notes generally are used to provide for short-term capital needs, in anticipation of an issuer s receipt of other revenues or financing, and typically have maturities of up to three years. Such instruments may include tax anticipation notes, revenue anticipation notes, bond anticipation notes, tax and revenue anticipation notes and construction loan notes. Tax anticipation notes are issued to finance the working capital needs of governments. Generally, they are issued in anticipation of various tax revenues, such as income, sales, property, use and business taxes, and are payable from these specific future taxes. Revenue anticipation notes are issued in expectation of receipt of other kinds of revenue, such as federal revenues available under federal revenue sharing programs. Bond anticipation notes are issued to provide interim financing until long-term bond financing can be arranged. In most cases, the long-term bonds then provide the funds needed for repayment of the bond anticipation notes. Tax and revenue anticipation notes combine the funding sources of both tax anticipation notes and revenue anticipation notes. Construction loan notes are sold to provide construction financing. Mortgage notes insured by the Federal Housing Authority secure these notes; however, the proceeds from the insurance may be less than the economic equivalent of the payment of principal and interest on the mortgage note if there has been a default. The anticipated revenues from taxes, grants or bond financing generally secure the obligations of an issuer of municipal notes. An investment in such instruments, however, presents a risk that the anticipated revenues will not be received or that such revenues will be insufficient to satisfy the issuer s payment obligations under the notes or that refinancing will be otherwise unavailable.

Pre-Refunded Municipal Securities. The principal of and interest on pre-refunded municipal securities are no longer paid from the original revenue source for the securities. Instead, the source of such payments is typically an escrow fund consisting of U.S. government securities. The assets in the escrow fund are derived from the proceeds of refunding bonds issued by the same issuer as the pre-refunded municipal securities. Issuers of municipal securities use this advance refunding technique to obtain more favorable terms with respect to securities that are not yet subject to call or redemption by the issuer. For example, advance refunding enables an issuer to refinance debt at lower market interest rates, restructure debt to improve cash flow or eliminate restrictive covenants in the indenture or other governing instrument for the pre-refunded municipal securities. However, except for a change in the revenue source from which principal and interest payments are made, the pre-refunded municipal securities remain outstanding on their original terms until they mature or are redeemed by the issuer.

Private Activity Bonds. Private activity bonds, formerly referred to as industrial development bonds, are issued by or on behalf of public authorities to obtain funds to provide privately operated housing facilities, airport, mass transit or port facilities, sewage disposal, solid waste disposal or hazardous waste treatment or disposal facilities and certain local facilities for water supply, gas or electricity. Other types of private activity bonds, the proceeds of which are used for the construction, equipment, repair or improvement of privately operated industrial or commercial facilities, may constitute municipal securities, although the current federal tax laws place substantial limitations on the size of such issues. The Fund s distributions of its interest income from private activity bonds may subject certain investors to the federal alternative minimum tax.

Inverse Floating Rate Securities. The Fund may invest up to approximately 15% of its Managed Assets in inverse floating rate securities. Inverse floating rate securities (sometimes referred to as inverse floaters are securities whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. Generally, inverse floating rate securities represent beneficial interests in a special purpose trust formed by a third party sponsor for the purpose of holding municipal bonds. The special purpose trust typically sells two classes of beneficial interests or securities: floating rate securities (sometimes referred to as short-term floaters or tender option bonds) and inverse floating rate securities (sometimes referred to as inverse floaters or residual interest securities). Both classes of beneficial interests are represented by certificates. The short-term floating rate securities have first priority on the cash flow from the municipal bonds held by the special purpose trust. Typically, a third party, such as a bank, broker-dealer or other financial institution, grants the floating rate security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As consideration for providing the option, the financial institution receives periodic fees. The holder of the short-term floater effectively holds a demand obligation that bears interest at the prevailing short-term, tax-exempt rate. However, the institution granting the tender option will not be obligated to accept tendered short-term floaters in the event of certain defaults or a significant downgrade in the credit rating assigned to the bond issuer. For its inverse floating rate investment, the Fund receives the residual cash flow from the special purpose trust. Because the holder of the short-term floater is generally assured liquidity at the face value of the security, the Fund as the holder of the inverse floater assumes the interest rate cash flow risk and the market value risk associated with the municipal security deposited into the special purpose trust. The volatility of the interest cash flow and the residual market value will vary with the degree to which the trust is leveraged. This is expressed in the ratio of the total face value of the short-term floaters in relation to the value of the residual inverse floaters that are issued by the special purpose trust. The Fund expects to make limited investments in inverse floaters, with leverage ratios that may vary at inception between one and three times. The Fund expects to make limited investments in inverse floaters, with leverage ratios that may vary between one and three times. In addition, all voting rights and decisions to be made with respect to any other rights relating to the municipal bonds held in the special purpose trust are passed through to the Fund, as the holder of the residual inverse floating rate securities.

Because increases in the interest rate on the short-term floaters reduce the residual interest paid on inverse floaters, and because fluctuations in the value of the municipal bond deposited in the special purpose trust affect the value of the inverse floater only, and not the value of the short-term floater issued by the trust, and because fluctuations in the value of the municipal bond deposited in the special purpose trust affect the value of the inverse floater only, and not the value of the short-term floater issued by the trust, inverse floaters value is generally more volatile than that of fixed rate bonds. The market price of inverse floating rate securities is generally more volatile than the underlying securities due to the leveraging effect of this ownership structure. These securities generally will underperform the market of fixed rate bonds in a rising interest rate environment (*i.e.,* when bond values are falling), but tend to out-perform the market of fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, inverse floaters typically offer the potential for yields exceeding the yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity. Inverse floaters have varying degrees of liquidity based upon, among other things, the liquidity of the underlying securities deposited in a special purpose trust.

The Fund may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund. In Nuveen Asset Management s discretion, the Fund may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Fund may enter into such recourse agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the trust in the event that the municipal obligation held in the trust has declined in value. Such an agreement would require the Fund to reimburse the third party sponsor of such inverse floater, upon termination of the trust issuing the inverse floater, the difference between the liquidation value of the bonds held in the trust and the principal amount due to the holders of floating rate interests. Such agreements may expose the Fund to a risk of loss that exceeds its investment in the inverse floating rate securities. Absent a shortfall and forbearance agreement, the Fund would not be required to make such a reimbursement. If the Fund chooses not to enter into such an agreement, the special purpose trust could be liquidated and the Fund could incur a loss.

The Fund may invest in both inverse floating rate securities and floating rate securities (as discussed below) issued by the same special purpose trust.

The Fund will segregate or earmark liquid assets with its custodian in accordance with the 1940 Act to cover its obligations with respect to its investments in special purpose trusts.

Investments in inverse floating rate securities create effective leverage. The use of leverage creates special risks for Common Stockholders. See Risk Factors Inverse Floating Rate Securities Risk.

Floating Rate Securities. The Fund may also invest in floating rate securities issued by special purpose trusts. Floating rate securities may take the form of short-term floating rate securities or the option period may be

substantially longer. Generally, the interest rate earned will be based upon the market rates for municipal securities with maturities or remarketing provisions that are comparable in duration to the periodic interval of the tender option, which may vary from weekly, to monthly, to extended periods of one year or multiple years. Since the option feature has a shorter term than the final maturity or first call date of the underlying bond deposited in the trust, the Fund as the holder of the floating rate security relies upon the terms of the agreement with the financial institution furnishing the option as well as the credit strength of that institution. As further assurance of liquidity, the terms of the trust provide for a liquidation of the municipal security deposited in the trust and the application of the proceeds to pay off the floating rate security. The trusts that are organized to issue both short-term floating rate securities and inverse floaters generally include liquidation triggers to protect the investor in the floating rate security.

Tender Option Bonds. A tender option bond is a municipal security (generally held pursuant to a custodial arrangement) having a relatively long maturity and bearing interest at a fixed rate substantially higher than prevailing short-term, tax-exempt rates. The bond is typically issued with the agreement of a third party, such as a bank, broker-dealer or other financial institution, which grants the security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As consideration for providing the option, the financial institution receives periodic fees equal to the difference between the bond s fixed coupon rate and the rate, as determined by a remarketing or similar agent at or near the commencement of such period, that would cause the securities, coupled with the tender option, to trade at par on the date of such determination. Thus, after payment of this fee, the security holder effectively holds a demand obligation that bears interest at the prevailing short-term, tax-exempt rate. However, an institution will not be obligated to accept tendered bonds in the event of certain defaults or a significant downgrade in the credit rating assigned to the issuer of the bond. The Fund intends to invest in tender option bonds the interest on which will, in the opinion of bond counsel, counsel for the issuer of interests therein or counsel selected by Nuveen Asset Management, be exempt from regular federal income tax. However, because there can be no assurance that the Internal Revenue Service (the IRS) will agree with such counsel s opinion in any particular case, there is a risk that the Fund will not be considered the owner of such tender option bonds and thus will not be entitled to treat such interest as exempt from such tax. Additionally, the federal income tax treatment of certain other aspects of these investments, including the proper tax treatment of tender option bonds and the associated fees in relation to various regulated investment company tax provisions, is unclear. The Fund intends to manage its portfolio in a manner designed to eliminate or minimize any adverse impact from the tax rules applicable to these investments.

Special Taxing Districts. Special taxing districts are organized to plan and finance infrastructure developments to induce residential, commercial and industrial growth and redevelopment. The bond financing methods such as tax increment finance, tax assessment, special services district and Mello-Roos bonds, are generally payable solely from taxes or other revenues attributable to the specific projects financed by the bonds without recourse to the credit or taxing power of related or overlapping municipalities. They often are exposed to real estate development-related risks and can have more taxpayer concentration risk than general tax-supported bonds, such as general obligation bonds. Further, the fees, special taxes, or tax allocations and other revenues that are established to secure such financings are generally limited as to the rate or amount that may be levied or assessed and are not subject to increase pursuant to rate covenants or municipal or corporate guarantees. The bonds could default if development failed to progress as anticipated or if larger taxpayers failed to pay the assessments, fees and taxes as provided in the financing plans of the districts.

When-Issued and Delayed Delivery Transactions. The Fund may buy and sell municipal securities on a when-issued or delayed delivery basis, making payment or taking delivery at a later date, normally within 15 to 45 days of the trade date. This type of transaction may involve an element of risk because no interest accrues on the bonds prior to settlement and, because bonds are subject to market fluctuations, the value of the bonds at time of delivery may be less (or more) than cost. A separate account of the Fund will be established with its custodian consisting of cash, cash equivalents, or liquid securities having a market value at all times at least equal to the amount of the commitment. Income generated by any such assets which provide taxable income for federal income tax purposes is includable in the taxable income of the Fund and, to the extent distributed, will be taxable distributions to shareholders. The Fund may enter into contracts to purchase municipal bonds on a forward basis (*i.e.*, where settlement will occur more than 60 days from the date of the transaction) only to the extent that the Fund specifically collateralizes such obligations with a security that is expected to be called or mature within sixty days before or after the settlement date of the forward transaction. The commitment to purchase securities on a when-issued, delayed delivery or forward basis may involve an element of risk because no interest accrues on the bonds prior to settlement and at the time of delivery the market value may be less than cost.

Zero Coupon Bonds. A zero coupon bond is a bond that typically does not pay interest either for the entire life of the obligation or for an initial period after the issuance of the obligation. When held to its maturity, the holder receives the par value of the zero coupon bond, which generates a return equal to the difference between the purchase price and its maturity value. A zero coupon bond is normally issued and traded at a deep discount from face value. This original issue discount (OID) approximates the total amount of interest the security will accrue and compound prior to its maturity and reflects the payment deferral and credit risk associated with the instrument. Because zero coupon securities and other OID instruments do not pay cash interest at regular intervals, the instruments ongoing accruals require ongoing judgments concerning the collectability of deferred payments and the value of any associated collateral. As a result, these securities may be subject to greater value fluctuations and less liquidity in the event of adverse market conditions than comparably rated securities that pay cash on a current basis. Because zero coupon bonds, and OID instruments generally, allow an issuer to avoid or delay the need to generate cash to meet current interest payments, they may involve greater payment deferral and credit risk than coupon loans and bonds that pay interest currently or in cash. The Fund generally will be required to distribute dividends to shareholders representing the income of these instruments as it accrues, even though the Fund will not receive all of the income on a current basis or in cash. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, and use the cash proceeds to make income distributions to its shareholders. For accounting purposes, these cash distributions to shareholders will not be treated as a return of capital.

Further, NFALLC collects management fees on the value of a zero coupon bond or OID instrument attributable to the ongoing non-cash accrual of interest over the life of the bond or other instrument. As a result, NFALLC receives non-refundable cash payments based on such non-cash accruals while investors incur the risk that such non-cash accruals ultimately may not be realized.

Structured Notes. The Fund may utilize structured notes and similar instruments for investment purposes and also for hedging purposes. Structured notes are privately negotiated debt obligations where the principal and/or interest is determined by reference to the performance of a benchmark asset, market or interest rate (an embedded index), such as selected securities, an index of securities or specified interest rates, or the differential performance of two assets or markets. The terms of such structured instruments normally provide that their principal and/or interest payments are to be adjusted upwards or downwards (but not ordinarily below zero) to reflect changes in the embedded index while the structured instruments are outstanding. As a result, the interest and/or principal payments that may be made on a structured product may vary widely, depending upon a variety of factors, including the volatility of the embedded index and the effect of changes in the embedded index on principal and/or interest payments. The rate of return on structured notes may be determined by applying a multiplier to the performance or differential performance of the referenced index or indices or other assets. Application of a multiplier involves leverage that will serve to magnify the potential for gain and the risk of loss. These types of investments may generate taxable income.

Special Considerations Relating to California Municipal Securities

As described above, the Fund will invest at least 80% of its Managed Assets in California municipal securities and other related investments, the income from which is exempt from regular federal and California personal income tax. The Fund is therefore susceptible to political, economic or regulatory factors affecting issuers of California municipal securities. See Concentration Risk in California Issuers and Appendix A of this Prospectus (Factors Affecting Municipal Securities in California). Information regarding the financial condition of the State of California is ordinarily included in various public documents issued thereby, such as the official statements prepared in connection with the issuance of general obligation bonds of the State of California. Such official statements may be obtained by contacting the State Treasurer s Office at 800-900-3873 or at www.treasurer.ca.gov. Complete text of the proposed 2013-2014 budget, and prior budgets, may be found at the electronic budget website of the Department of Finance (www.ebudget.ca.gov).

The State of California is a party to numerous legal proceedings, many of which normally occur in governmental operations. Information regarding some of the more significant litigation pending against the State would ordinarily be included in various public documents issued thereby, such as the official statements referred to above prepared in connection with the issuance of general obligation bonds of California.

The Legislative Analyst s Office (the LAO) has released several reports which include their estimates and assessments of State budget acts and associated fiscal and economic projections. Publications from the LAO can be read in full by accessing the LAO s website (www.lao.ca.gov) or by contacting the LAO at 916-445-4656. Complete text of the State Controller s monthly Summary Analysis may be accessed at the State Controller s website (www.sco.ca.gov).

It should be noted that the creditworthiness of obligations issued by local California issuers may be unrelated to the creditworthiness of obligations issued by the State of California, and that there is no obligation on the part of the State of California to make payment on such local obligations in the event of default.

None of the information on the above websites is incorporated herein by reference.

Derivatives

The Fund may invest in certain derivative instruments in pursuit of its investment objectives. Such instruments include financial futures contracts, swap contracts (including interest rate and credit default swaps), options on financial futures, options on swap contracts or other derivative instruments. The Fund may use also credit default swaps and interest rate swaps. Credit default swaps may require initial premium (discount) payments as well as periodic payments (receipts) related to the interest leg of the swap or to the default of a reference obligation. If the Fund is a seller of a contract, the Fund would be required to pay the par (or other agreed upon) value of a referenced debt obligation to the counterparty in the event of a default or other credit event by the reference issuer, such as a U.S. or foreign corporate issuer, with respect to such debt obligations. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Fund would keep the stream of payments and would have no payment obligations. As the seller, the Fund would be subject to investment exposure on the notional amount of the swap. If the Fund is a buyer of a contract, the Fund would have the right to deliver a referenced debt obligation and receive the par (or other agreed-upon) value of such debt obligation from the counterparty in the event of a default or other credit event (such as a credit downgrade) by the reference issuer, such as a U.S. or foreign corporation, with respect to its debt obligations. In return, the Fund would pay the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the counterparty would keep the stream of payments and would have no further obligations to the Fund. Interest rate swaps involve the exchange by the Fund with a counterparty of their respective commitments to pay or receive interest, such as an exchange of fixed-rate payments for floating rate payments. The Fund will usually enter into interest rate swaps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments.

NFALLC may use derivative instruments to seek to enhance return, to hedge some of the risk of the Fund s investments in municipal securities or as a substitute for a position in the underlying asset. These types of strategies may generate taxable income.

There is no assurance that these derivative strategies will be available at any time or that, if used, that the strategies will be successful.

Limitations on the Use of Futures, Options on Futures and Swaps. NFALLC has claimed, with respect to the Fund, the exclusion from the definition of commodity pool operator under the Commodity Exchange Act (CEA) provided by Commodity Futures Trading Commission (CFTC) Regulation 4.5 and is therefore not currently subject to registration or regulation as such under the CEA with respect to the Fund. In addition, Nuveen Asset Management has claimed the exemption from registration as a commodity trading advisor provided by CFTC Regulation 4.14(a)(8) and is therefore not currently subject to registration or regulation as such under the CEA with respect to the Fund. In February 2012, the CFTC announced substantial amendments to certain exemptions, and to the conditions for reliance on those exemptions, from registration as a commodity pool operator. Under amendments to the exemption provided under CFTC Regulation 4.5, if the Fund uses futures, options on futures or swaps other than for bona fide hedging purposes (as defined by the CFTC), the aggregate initial margin and premiums on these positions (after taking into account unrealized profits and unrealized losses on any such positions and excluding the amount by which options that are in-the-money at the time of purchase are in-the-money) may not exceed 5% of the Fund s net asset value, or alternatively, the aggregate net notional value of those positions may not exceed 100% of the Fund s net asset value (after taking into account unrealized profits and unrealized losses on any such positions). The CFTC amendments to Regulation 4.5 took effect on December 31, 2012, and the Fund intends to comply with amended Regulation 4.5 s requirements such that NFALLC will not be required to register as a commodity pool operator with the CFTC with respect to the Fund. The Fund reserves the right to employ futures, options on futures and swaps to the extent allowed by CFTC regulations in effect from time to time and in accordance with the Fund s policies. The requirements for qualification as a regulated investment company may also limit the extent to which the Fund may employ futures, options on futures or swaps.

Other Investment Companies

The Fund may invest up to 10% of its Managed Assets in securities of other open- or closed-end investment companies (including exchange-traded funds (ETFs)) that invest primarily in municipal securities of the types in which the Fund may invest directly. In addition, the Fund may invest a portion of its Managed Assets in pooled investment vehicles (other than investment companies) that invest primarily in municipal securities of the types in which the Fund may invest directly. The Fund generally expects that it may invest in other investment companies and/or other pooled investment vehicles either during periods when it has large amounts of uninvested cash, such as the period shortly after the Fund receives the proceeds of the offering of its Common Stock, or during periods when there is a shortage of attractive, high-yielding municipal securities available in the market. The Fund may invest in investment companies that are advised by NFALLC, Nuveen Asset Management or their respective affiliates to the extent permitted by applicable law and/or pursuant to exemptive relief from the SEC. The Fund has not received or applied for, nor does it currently intend to apply for, any such relief. As a stockholder in an investment company, the Fund will bear its ratable share of that investment company s expenses, and would remain subject to payment of the Fund s advisory and administrative fees with respect to assets so invested. Common Stockholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies.

Nuveen Asset Management will take expenses into account when evaluating the investment merits of an investment in an investment company relative to available municipal security investments. In addition, the securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks described herein. As described in the section entitled Risk Factors, the net asset value and market value of leveraged shares will be more volatile and the yield to Common Stockholders will tend to fluctuate more than the yield generated by unleveraged shares.

Portfolio Turnover

The Fund may buy and sell municipal securities to accomplish its investment objectives in relation to actual and anticipated changes in interest rates. The Fund also may sell one municipal security and buy another of comparable quality at about the same time to take advantage of what Nuveen Asset Management believes to be a temporary price disparity between the two bonds that may result from imbalanced supply and demand. The Fund also may engage in a limited amount of short-term trading, consistent with its investment objectives. The Fund may sell securities in anticipation of a market decline (a rise in interest rates) or buy securities in anticipation of a market rise (a decline in interest rates) and later sell them, but the Fund will not engage in trading solely to recognize a gain. The Fund will attempt to achieve its investment objectives by prudently selecting California municipal securities with a view to holding them for investment. Although the Fund cannot accurately predict its annual portfolio turnover rate, the Fund expects, though it cannot guarantee, that its annual portfolio turnover rate generally will not exceed 25% under normal circumstances. For the fiscal year ended February 28, 2013, the Fund s portfolio turnover rate was 16%. There are no limits on the rate of portfolio turnover, and investments may be sold without regard to length of time held when investment considerations warrant such action. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. In addition, high portfolio turnover may result in the realization of net short term capital gains by the Fund which, when distributed to shareholders, will be taxable as ordinary income. See Tax Matters.

USE OF LEVERAGE

Financial leverage is created through the Fund s investments in residual interest certificates of tender option bond trusts, also called inverse floating rate securities, because the Fund s investment exposure to the underlying bonds held by the trust have been effectively financed by the trust s issuance of floating rate certificates. See The Fund s Investments Municipal Securities Inverse Floating Rate Securities and Risk Factors Inverse Floating Rate Securities. Leverage involves special risks. There is no assurance that the Fund s leveraging strategy will be successful. The Fund will seek to invest the proceeds from financial leverage in a manner consistent with the Fund s objectives and policies.

The Fund s investments in inverse floating rate securities pay dividends at rates based on short-term periods which are reset periodically. So long as the Fund s portfolio is invested in securities that provide a higher rate of return than the Fund s cost of leverage (after taking expenses into consideration), the leverage will cause you to receive a higher current rate of return than if the Fund were not leveraged.

Changes in the value of the Fund s bond portfolio will be borne entirely by the Common Stockholders. If there is a net decrease (or increase) in the value of the Fund s investment portfolio, the leverage will decrease (or increase) the net asset value per share of Common Stock to a greater extent than if the Fund were not leveraged.

The Fund pays NFALLC (which in turn pays a portion of its fees to Nuveen Asset Management) a management fee based on a percentage of Managed Assets. Managed Assets for this purpose includes the proceeds realized from the Fund s use of financial leverage. See Management of the Fund Investment Management Agreement. NFALLC and Nuveen Asset Management will base its decision whether and how much to leverage the Fund based solely on its assessment of whether such use of leverage will advance the Fund s investment objective. NFALLC and Nuveen Asset Management will be responsible for using leverage to achieve the Fund s investment objective. However, the fact that a decision to increase the Fund s leverage will have the effect of increasing Managed Assets and therefore NFALLC s management fee, as well as the portion payable to Nuveen Asset Management, means that NFALLC and Nuveen Asset Management may have an incentive to increase the Fund s use of leverage. NFALLC and Nuveen Asset Management will seek to manage that incentive by only increasing the Fund s use of leverage when it determines that such increase is consistent with the Fund s investment objective, and by periodically reviewing the Fund s performance and use of leverage with the Fund s Board of Directors.

RISK FACTORS

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment. Therefore, before investing you should consider carefully the following risks that you assume when you invest in Common Stock.

Investment and Market Risk

An investment in the Fund s Common Stock is subject to investment risk, including the possible loss of the entire principal amount that you invest. Your investment in Common Stock represents an indirect investment in the municipal securities owned by the Fund, which generally trade in the over-the-counter markets. Your Common Stock at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions. In addition, if the current national economic downturn deteriorates into a prolonged recession, the ability of municipalities to collect revenue and service their obligations could be materially and adversely affected.

Recent Market Conditions

The financial crisis in the U.S. and many foreign economies over the past several years, including the European sovereign debt and banking crises, has resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both domestic and foreign. Liquidity in some markets has decreased; credit has become scarcer worldwide; and the values of some sovereign debt and of securities of issuers that hold that sovereign debt have fallen. These market conditions may continue or deteriorate further and may add significantly to the risk of short-term volatility in the Fund. In addition, global economies and financial markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country or region might adversely impact issuers in a different country or region. Because the situation is widespread and largely unprecedented, it may be unusually difficult to identify both risks and opportunities using past models of the interplay of market forces, or to predict the duration of these market conditions.

In response to the crisis, the U.S. and other governments and the Federal Reserve and certain foreign central banks have taken steps to support the financial markets. Where economic conditions are recovering, they are nevertheless perceived as still fragile. Withdrawal of government support, failure of efforts in response to the crisis, or investor perception that such efforts are not succeeding could adversely impact the value and liquidity of certain securities.

The severity or duration of these conditions may also be affected by policy changes made by governments or quasigovernmental organizations. Changes in market conditions will not have the same impact on all types of securities.

Market Discount from Net Asset Value

Shares of closed-end investment companies like the Fund have during some periods traded at prices higher than net asset value and have during other periods traded at prices lower than net asset value. The Fund cannot predict whether shares of Common Stock will trade at, above or below net asset value. This characteristic is a risk separate and distinct from the risk that the Fund s net asset value could decrease as a result of investment activities. Investors bear a risk of loss to the extent that the price at which they sell their shares is lower in relation to the Fund s net asset value than at the time of purchase, assuming a stable net asset value. Proceeds from the sale of Common Stock in this offering will be reduced by transaction costs (if applicable, which vary depending on the offering method used). Depending on the premium of the shares of Common Stock at the time of any offering of Common Stock hereunder, the Fund s net asset value may be reduced by an amount up to the offering costs borne by the Fund (estimated to be an additional 0.56% of the offering price assuming a Common Stock share offering price of $10.29 (the Fund s closing price on the NYSE on May 16, 2013)). The shares of Common Stock are designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes.

Credit and Below Investment Grade Risk

Credit risk is the risk that one or more municipal securities in the Fund s portfolio will decline in price, or the issuer thereof will fail to pay interest or principal when due, because the issuer of the security experiences a decline in its financial status. In general, lower-rated municipal securities carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative impact on the Fund s net asset value or dividends. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates. The Fund may invest up to 20% of its Managed Assets in municipal securities that are rated below investment grade at the time of investment or that are unrated but judged to be of comparable quality by Nuveen Asset Management. No more than 10% of the Fund s Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by Nuveen Asset Management. If a municipal security satisfies the rating requirements described above at the time of investment and is subsequently downgraded below that rating, the Fund will not be required to dispose of the security. If a downgrade occurs, Nuveen Asset Management will consider what action, including the sale of the security, is in the best interests of the Fund and its shareholders. This means that the Fund may invest in municipal securities that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the time of acquisition (such securities are commonly referred to as distressed securities). Municipal securities of below investment grade quality, commonly referred to as junk bonds, are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal when due, and are susceptible to default or decline in market value due to adverse economic and business developments. Also, to the extent that the rating assigned to a municipal security in the Fund s portfolio is downgraded by any NRSRO, the market price and liquidity of such security may be adversely affected. The market values for municipal securities of below investment grade quality tend to be volatile, and these securities are less liquid than investment grade municipal securities. For these reasons, an investment in the Fund, compared with a portfolio consisting solely of investment grade securities, may experience the following:

- increased price sensitivity resulting from changing interest rates and/or a deteriorating economic environment;
- greater risk of loss due to default or declining credit quality;
- adverse issuer specific events that are more likely to render the issuer unable to make interest and/or principal payments; and
- the possibility that a negative perception of the below investment grade market develops, resulting in the price and liquidity of below investment grade securities becoming depressed, and this negative perception could last for a significant period of time.

Adverse changes in economic conditions are more likely to lead to a weakened capacity of a below investment grade issuer to make principal payments and interest payments compared to an investment grade issuer. The principal amount of below investment grade securities outstanding has proliferated in the past decade as an increasing number of issuers have used below investment grade securities for financing. The current downturn may severely affect the ability of highly leveraged issuers to service their debt obligations or to repay their obligations upon maturity. As the national economy experiences the current economic downturn, resulting in decreased tax and other revenue streams of municipal issuers, or in the event interest rates rise sharply, increasing the interest cost on variable rate instruments and negatively impacting economic activity, the number of defaults by below investment grade municipal issuers is likely to increase. Similarly, downturns in profitability in specific industries could adversely affect private activity bonds. The market values of lower quality debt securities tend to reflect individual developments of the issuer to a greater extent than do higher quality securities, which react primarily to fluctuations in the general level of interest rates. Factors having an adverse impact on the market value of lower quality securities may have an adverse impact on the Fund s net asset value and the market value of its Common Stock. In addition, the Fund may incur additional expenses to the extent it is required to seek recovery upon a default in payment of principal or interest on its portfolio holdings. In certain circumstances, the Fund may be required to foreclose on an issuer s assets and take possession of its property or operations. In such circumstances, the Fund would incur additional costs in disposing of such assets and potential liabilities from operating any business acquired.

The secondary market for below investment grade securities may not be as liquid as the secondary market for more highly rated securities, a factor that may have an adverse effect on the Fund s ability to dispose of a particular security. There are fewer dealers in the market for below investment grade municipal securities than the market for investment grade municipal securities. The prices quoted by different dealers for below investment grade municipal securities may vary significantly, and the spread between the bid and ask price is generally much larger for below investment grade municipal securities than for higher quality instruments. Under adverse market or economic conditions, the secondary market for below investment grade securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these instruments may become illiquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower rated or unrated securities, under these circumstances, may be less than the prices used in calculating the Fund s net asset value.

Issuers of such below investment grade securities are highly leveraged and may not have available to them more traditional methods of financing. Therefore, the risk associated with acquiring the securities of such issuers generally is greater than is the case with higher rated securities. For example, during an economic downturn or a sustained period of rising interest rates, highly leveraged issuers of below investment grade securities may experience financial stress. During such periods, such issuers may not have sufficient revenues to meet their interest payment obligations. The issuer s ability to service its debt obligations also may be adversely affected by specific developments, the issuer s inability to meet specific projected forecasts or the unavailability of additional financing. The risk of loss from default by the issuer is significantly greater for the holders of below investment grade securities because such securities are generally unsecured and are often subordinated to other creditors of the issuer. Prices and yields of below investment grade securities will fluctuate over time and, during periods of economic uncertainty, volatility of below investment grade securities may adversely affect the Fund s net asset value. In addition, investments in below investment grade zero coupon bonds rather than income- bearing below investment grade securities, may be more speculative and may be subject to greater fluctuations in value due to changes in interest rates.

The Fund may invest in distressed securities, which are securities issued by companies that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the time of acquisition by the Fund. The issuers of such securities may be in transition, out of favor, financially leveraged or troubled, or potentially troubled, and may be or have recently been involved in major strategic actions, restructurings, bankruptcy, reorganization or liquidation. These characteristics of these companies can cause their securities to be particularly risky, although they also may offer the potential for high returns. These companies securities may be considered speculative, and the ability of the companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within the companies. Distressed securities frequently do not produce income while they are outstanding and may require the Fund to bear certain extraordinary expenses in order to protect and recover its investment.

Investments in lower rated or unrated securities may present special tax issues for the Fund to the extent that the issuers of these securities default on their obligations pertaining thereto, and the federal income tax consequences to the Fund as a holder of such distressed securities may not be clear.

Interest Rate Risk

Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the municipal securities in the Fund s portfolio will decline in value because of increases in market interest rates. As interest rates decline, issuers of municipal securities may prepay principal earlier than scheduled, forcing the

Fund to reinvest in lower-yielding securities and potentially reducing the Fund s income. As interest rates increase, slower than expected principal payments may extend the average life of securities, potentially locking in a below-market interest rate and reducing the Fund s value. In typical market interest rate environments, the prices of longer-term municipal securities generally fluctuate more than prices of shorter-term municipal securities as interest rates change. Because the Fund will invest primarily in longer-term municipal securities, the Common Stock net asset value and market price per share will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in shorter-term municipal securities. Because the values of lower-rated and comparable unrated debt securities are affected both by credit risk and interest rate risk, the price movements of such lower grade securities typically have not been highly correlated to the fluctuations of the prices of investment grade quality securities in response to changes in market interest rates. The Fund s use of leverage, as described herein, will also tend to increase Common Stock interest rate risk.

Municipal Securities Market Risk

Investing in the municipal securities market involves certain risks. The municipal market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms capital was severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal bonds. The amount of public information available about the municipal securities in the Fund s portfolio is generally less than that for corporate equities or bonds, and the investment performance of the Fund may therefore be more dependent on the analytical abilities of Nuveen Asset Management than if the Fund were a stock fund or taxable bond fund. The secondary market for municipal securities, particularly the below investment grade bonds in which the Fund may invest, also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund s ability to sell its municipal securities at attractive prices or at prices approximating those at which the Fund currently values them.

The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns and as governmental cost burdens are reallocated among federal, state and local governments. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes. Issuers of municipal securities might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, the Fund could experience delays in collecting principal and interest and the Fund may not, in all circumstances, be able to collect all principal and interest to which it is entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, the Fund may take possession of and manage the assets securing the issuer s obligations on such securities, which may increase the Fund s operating expenses. Any income derived from the Fund s ownership or operation of such assets may not be tax-exempt.

Reinvestment Risk

Reinvestment risk is the risk that income from the Fund s portfolio will decline if and when the Fund invests the proceeds from matured, traded or called bonds at market interest rates that are below the portfolio s current earnings rate. A decline in income could affect the market price of the shares of Common Stock or their overall returns.

Concentration Risk in California Issuers

The Fund s policy of investing in municipal securities of issuers located in California makes the Fund more susceptible to the adverse economic, political or regulatory occurrences affecting such issuers. The information set forth below and the related information in Appendix A of this Prospectus is derived from sources that are generally available to investors. The information is intended to give a recent historical description and is not intended to indicate future or continuing trends in the financial or other positions of California. It should be noted

that the creditworthiness of obligations issued by local California issuers may be unrelated to the creditworthiness of obligations issued by the State of California, and that there is no obligation on the part of the State to make payment on such local obligations in the event of default.

The State of California, as the rest of the nation, has been slowly emerging from an economic recession that began at the end of 2007, marked in California by high unemployment, a steep contraction in housing construction and home values, a drop in State-wide assessed valuation of property for the first time on record, a year-over-year decline in personal income in the State for the first time in 60 years, and a sharp drop in taxable sales. The State is recovering more slowly than expected and continues to face significant financial challenges.

California s budget problems have been driven in part by large fluctuations in its tax revenue and fixed spending obligations. During recessionary periods, dramatic cuts to programs and/or tax increases sometimes have been required. To address budget gaps, spending has been cut, State programs have been realigned to local governments, and short-term budgetary solutions have been implemented. Budget gaps are expected, however, to continue to challenge State fiscal leaders in future years. Continued risks to the State s long-term stability include pension liabilities, debt and increasing annual obligations, and potential cost increases associated with the federal deficit.

California s fiscal situation heightens the risk of investing in bonds issued by the State and its political subdivisions, agencies, instrumentalities and authorities, including the risk of default, and also heightens the risk that the prices of California municipal securities, and the fund s net asset value, will experience greater volatility. As of April 2013, California general obligation bonds were rated A1 by Moody s, A by S&P and A- by Fitch. These ratings are among the lowest of any of the 50 states. There can be no assurance that such ratings will be maintained in the future. The State s credit rating, and any future revisions or withdrawal of a credit rating, could have a negative effect on the market price of the State s general obligation bonds, as well as notes and bonds issued by California s public authorities and local governments. Lower credit ratings make it more expensive for the State to raise revenue, and in some cases, could prevent the State from issuing general obligation bonds in the quantity otherwise desired. Further, downgrades can negatively impact the marketability and price of securities in the fund s portfolio.

The foregoing information constitutes only a brief summary of some of the general factors that may impact certain issuers of municipal bonds and does not purport to be a complete or exhaustive description of all adverse conditions to which the issuers of municipal bonds held by the Fund are subject. Additionally, many factors, including national economic, social and environmental policies and conditions, which are not within the control of the issuers of the municipal bonds, could affect or could have an adverse impact on the financial condition of the issuers. The Fund is unable to predict whether or to what extent such factors or other factors may affect the issuers of the municipal securities, the market value or marketability of the municipal securities or the ability of the respective issuers of the municipal bonds acquired by the Fund to pay interest on or principal of the municipal securities. This information has not been independently verified. See Appendix A of this Prospectus for a further discussion of factors affecting municipal securities in California.

Leverage Risk

Leverage risk is the risk associated with the use of the Fund s borrowings, outstanding preferred shares, if issued in the future, or the use of tender option bonds to leverage the Common Stock. There can be no assurance that the Fund s leveraging strategy will be successful. Because the long-term interest securities in which the Fund invests generally pay fixed rates of interest while the Fund s costs of leverage generally fluctuate with short- to intermediate-term yields, the incremental earnings from leverage will vary over time. However, the Fund may use derivatives, such as interest rate swaps, to fix the effective rate paid on all or a portion of the Fund s leverage in an effort to lower leverage costs over an extended period. Accordingly, the Fund cannot assure you that the use of leverage will result in a higher yield or return to Common Stockholders. The income benefit from leverage will be reduced to the extent that the difference narrows between the net earnings on the Fund s portfolio securities and its cost of leverage. The income benefit from leverage will increase to the extent that the difference widens between the net earnings on the Fund s portfolio securities and its cost of leverage. If short- or intermediate-term rates rise, the Fund s cost of leverage could exceed the fixed rate of return on longer-term bonds held by the Fund that were acquired during periods of lower interest rates, reducing returns to Common Stockholders. This could occur even if short- or intermediate-term and long-term interest rates rise. Because of the costs of leverage, the Fund may incur losses even if the Fund has positive returns, if they are not sufficient to cover the costs of leverage. The Fund s cost of leverage includes expenses relating to the issuance and ongoing maintenance of any borrowings or the interest attributable to tender option bonds as well as any one-time costs (*e.g.*, issuance costs) and ongoing fees and expenses associated with such leverage.

The risk of loss attributable to the Fund s use of leverage is borne by Common Stockholders. The Fund s use of financial leverage can result in a greater decrease in net asset values in declining markets. Furthermore, the amount of fees paid to NFALLC for investment advisory services will be higher if the Fund uses leverage because the fees will be calculated based on the Fund s Managed Assets this may create an incentive for NFALLC to leverage the Fund. The Fund is required to maintain certain regulatory and rating agency asset coverage requirements in connection with its outstanding borrowings, in order to be able to maintain the ability to declare and pay Common Stock distributions and to maintain the rating of preferred shares, if issued in the future. In order to maintain required asset coverage levels, the Fund may be required to alter the composition of its investment portfolio or take other actions, such as redeeming preferred shares, if any, or prepaying borrowings with the proceeds from portfolio transactions, at what might be an inopportune time in the market. Such actions could reduce the net earnings or returns to Common Stockholders over time.

The Fund may invest in the securities of other investment companies, which may themselves be leveraged and therefore present similar risks to those described above and magnify the Fund s leverage risk.

Inverse Floating Rate Securities Risk

The Fund may invest up to approximately 15% of its Managed Assets in inverse floating rate securities. Typically, inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a tender option bond trust) formed by a third party sponsor for the purpose of holding municipal bonds. See Municipal Securities Inverse Floating Rate Securities. In general, income on inverse floating rate securities will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal.

The Fund may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund. In Nuveen Asset Management s discretion, the Fund may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Fund may enter into such recourse agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the trust in the event that the municipal obligation held in the trust has declined in value. Such an agreement would require the Fund to reimburse the third party sponsor of the trust, upon termination of the trust issuing the inverse floater, the difference between the liquidation value of the bonds held in the trust and the principal amount due to the holders of floating rate interests. In such instances, the Fund may be at risk of loss that exceeds its investment in the inverse floating rate securities.

Inverse floating rate securities may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Fund s investment. As a result, the market value of such securities generally will be more volatile than that of fixed rate securities.

The Fund s investments in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund may be highly leveraged. The structure and degree to which the Fund s inverse floating rate securities are highly leveraged will vary based upon a number of factors, including the size of the trust itself and the terms of the underlying municipal security. An inverse floating rate security generally is considered highly leveraged if the principal amount of the short-term floating rate interests issued by the related special purpose trust has a three to one gearing to the principal amount of the inverse floating rate securities owned by the trust. In the event of a significant decline in the value of an underlying security, the Fund may suffer losses in excess of the amount of its investment (up to an amount equal to the value of the municipal securities underlying the inverse floating rate securities) as a result of liquidating special purpose trusts or other collateral required to maintain the Fund s anticipated effective leverage ratio.

The Fund s investment in inverse floating rate securities will create effective leverage. Any effective leverage achieved through the Fund s investment in inverse floating rate securities will create an opportunity for increased Common Stock net income and returns, but will also create the possibility that Common Stock long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund. See Risk Factors Leverage Risk.

The amount of fees paid to Nuveen Asset Management for investment advisory services will be higher if the Fund uses leverage because the fees will be calculated based on the Fund s Managed Assets this may create an incentive for Nuveen Asset Management to leverage the Fund. Managed Assets means the total assets of the Fund, minus the sum of its accrued liabilities (other than liabilities incurred for the express purpose of creating effective leverage). Total assets for this purpose shall include assets attributable to the Fund s use of effective leverage (whether or not those assets are reflected in the Fund s financial statements for purposes of generally accepted accounting principles), such as, but not limited to, the portion of assets in special purpose trusts of which the Fund owns the inverse floater certificates that has been effectively financed by the trust s issuance of floating rate certificates.

There is no assurance that the Fund s strategy of investing in inverse floating rate securities will be successful.

Inverse floating rate securities have varying degrees of liquidity based, among other things, upon the liquidity of the underlying securities deposited in a special purpose trust. The market price of inverse floating rate securities is more volatile than the underlying securities due to leverage. The leverage attributable to such inverse floating rate securities may be called away on relatively short notice and therefore may be less permanent than more traditional forms of leverage. In certain circumstances, the likelihood of an increase in the volatility of net asset value and market price of the Common Stock may be greater for a fund (like the Fund) that relies primarily on inverse floating rate securities to achieve a desired effective leverage ratio. The Fund may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Fund portfolio holdings in certain circumstances, including, but not limited to, the following:

- If the Fund has a need for cash and the securities in a special purpose trust are not actively trading due to adverse market conditions;
- If special purpose trust sponsors (as a collective group or individually) experience financial hardship and consequently seek to terminate their respective outstanding trusts; and
- If the value of an underlying security declines significantly (to a level below the notional value of the floating rate securities issued by the trust) and if additional collateral has not been posted by the Fund.

Insurance Risk

The Fund may purchase municipal securities that are secured by insurance, bank credit agreements or escrow accounts. The credit quality of the companies that provide such credit enhancements will affect the value of those securities. Certain significant providers of insurance for municipal securities have recently incurred significant losses as a result of exposure to sub-prime mortgages and other lower credit quality investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such losses have reduced the insurers capital and called into question their continued ability to perform their obligations under such insurance if they are called upon to do so in the future. While an insured municipal security will typically be deemed to have the rating of its insurer, if the insurer of a municipal security suffers a downgrade in its credit rating or the market discounts the value of the insurance provided by the insurer, the rating of the underlying municipal security will be more relevant and the value of the municipal security would more closely, if not entirely, reflect such rating. In such a case, the value of insurance associated with a municipal security would decline and may not add any value. The insurance feature of a municipal security does not guarantee the full payment of principal and interest through the life of an insured obligation, the market value of the insured obligation or the net asset value of the Common Stock represented by such insured obligation.

Tax Risk

To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, among other things, the Fund must derive in each taxable year at least 90% of its gross income from certain prescribed sources and satisfy a diversification test on a quarterly basis. If the Fund fails to satisfy the qualifying income or diversification requirements in any taxable year, the Fund may be eligible for relief provisions if the failures are due to reasonable cause and not willful neglect and if a penalty tax is paid with respect to each failure to satisfy the applicable requirements. Additionally, relief is provided for certain de minimis failures of the diversification requirements where the Fund corrects the failure within a specified period. In order to be eligible for the relief provisions with respect to a failure to meet the diversification requirements, the Fund may be required to dispose of certain assets. If these relief provisions were not available to the Fund and it were to fail to qualify for treatment as a regulated investment company for a taxable year, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate rates without any deduction for distributions to stockholders, and such distributions would be taxable as ordinary dividends to the extent of the Fund s current and accumulated earnings and profits.

To qualify to pay exempt-interest dividends, which are treated as items of interest excludable from gross income for federal income tax purposes, at least 50% of the value of the total assets of the Fund must consist of obligations exempt from regular income tax as of the close of each quarter of the Fund s taxable year. If the proportion of taxable investments held by the Fund exceeds 50% of the Fund s total assets as of the close of any quarter of any Fund taxable year, the Fund will not satisfy for that taxable year the general eligibility test that otherwise permits it to pay exempt-interest dividends for the taxable year.

The value of the Fund s investments and its net asset value may be adversely affected by changes in tax rates and policies. Because interest income from municipal securities is normally not subject to regular federal income taxation, the attractiveness of municipal securities in relation to other investment alternatives is affected by changes in federal income tax rates or changes in the tax-exempt status of interest income from municipal securities. Any proposed or actual changes in such rates or exempt status, therefore, can significantly affect the demand for and supply, liquidity and marketability of municipal securities. This could in turn affect the Fund s net asset value and ability to acquire and dispose of municipal securities at desirable yield and price levels. Additionally, the Fund is not a suitable investment for individual retirement accounts, for other tax-exempt or tax-deferred accounts or for investors who are not sensitive to the federal income tax consequences of their investments.

Taxability Risk

The Fund will invest in municipal securities in reliance at the time of purchase on an opinion of bond counsel to the issuer that the interest paid on those securities will be excludable from gross income for federal income tax purposes, and Nuveen Asset Management will not independently verify that opinion. Subsequent to

the Fund s acquisition of such a municipal security, however, the security may be determined to pay, or to have paid, taxable income. As a result, the treatment of dividends previously paid or to be paid by the Fund as exempt-interest dividends could be adversely affected, subjecting the Fund s shareholders to increased federal income tax liabilities.

Distributions of ordinary taxable income (including any net short-term capital gain) will be taxable to shareholders as ordinary income (and not eligible for favorable taxation as qualified dividend income), and capital gain dividends will be taxable as long-term capital gains. See Tax Matters.

Borrowing Risks

The Fund may borrow for temporary or emergency purposes, including to meet redemption requests, pay dividends, repurchase its shares, or clear portfolio transactions. Borrowing may exaggerate changes in the net asset value of the Fund s shares and may affect the Fund s net income. When the Fund borrows money, it must pay interest and other fees, which will reduce the fund s returns if such costs exceed the returns on the portfolio securities purchased or retained with such borrowings. Any such borrowings are intended to be temporary. However, under certain market conditions, including periods of low demand or decreased liquidity in the municipal bond market such borrowings might be outstanding for longer periods of time.

Inflation Risk

Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of shares of Common Stock and the distributions can decline. In addition, during any period of rising inflation, interest rates on borrowings would likely increase, which would tend to further reduce returns to Common Stockholders.

Economic Sector Risk

The Fund may invest 25% or more of its total assets in municipal securities in the same economic sector. This may make the Fund more susceptible to adverse economic, political or regulatory occurrences affecting an economic sector. As concentration increases, so does the potential for fluctuation in the value of the Fund s assets.

Special Risks Related to Certain Municipal Obligations

The Fund may invest in municipal leases and certificates of participation in such leases. Municipal leases and certificates of participation involve special risks not normally associated with general obligations or revenue bonds. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipment without meeting the constitutional and statutory requirements for the issuance of debt. The debt issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of non-appropriation clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event the governmental issuer is prevented from maintaining occupancy of the leased premises or utilizing the leased equipment. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of non-appropriation or foreclosure might prove difficult, time consuming and costly, and may result in a delay in recovering or the failure to fully recover the Fund s original investment. In the event of non-appropriation, the issuer would be in default and taking ownership of the assets may be a remedy available to the Fund, although the Fund does not anticipate that such a remedy would normally be pursued. To the extent that the Fund invests in unrated municipal leases or participates in such leases, the credit quality rating and risk of cancellation of such unrated leases will be monitored on an ongoing basis. Certificates of participation, which represent interests in unmanaged pools of municipal leases or installment contracts, involve the same risks as the underlying municipal leases. In addition, the Fund may be dependent upon the municipal authority issuing the certificates of participation to exercise remedies with respect to the underlying securities. Certificates of participation also entail a risk of default or bankruptcy, both of the issuer of the municipal lease and also the municipal agency issuing the certificate of participation.

Derivatives Risk, Including the Risk of Swaps

The Fund s use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the investments underlying the derivatives. Whether the Fund s use of derivatives is successful will depend on, among other things, if Nuveen Asset Management correctly forecasts market values, interest rates and other applicable factors. If Nuveen Asset Management incorrectly forecasts these and other factors, the investment performance of the Fund will be unfavorably affected. In addition, the derivatives market is largely unregulated. It is possible that developments in the derivatives market could adversely affect the Fund s ability to successfully use derivative instruments.

The Fund may enter into debt-related derivatives instruments including credit swap default contracts and interest rate swaps. Like most derivative instruments, the use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. In addition, the use of swaps requires an understanding by Nuveen Asset Management not only of the referenced asset, rate or index, but also of the swap itself. Because they are two-party contracts and because they may have terms of greater than seven days, swap agreements may be considered to be illiquid. Moreover, the Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. It is possible that developments in the swaps market, including potential government regulation, could adversely affect the Fund s ability to terminate existing swap agreements or to realize amounts to be received under such agreements. The derivatives market is subject to a changing regulatory environment. It is possible that regulatory or other developments in the derivatives market could adversely affect the Fund s ability to successfully use derivative instruments. See also, Counterparty Risk, Hedging Risk and the SAI.

Counterparty Risk

Changes in the credit quality of the companies that serve as the Fund s counterparties with respect to derivatives, insured municipal securities or other transactions supported by another party s credit will affect the value of those instruments. Certain entities that have served as counterparties in the markets for these transactions have recently incurred significant financial hardships including bankruptcy and losses as a result of exposure to sub-prime mortgages and other lower quality credit investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such hardships have reduced these entities capital and called into question their continued ability to perform their obligations under such transactions. By using such derivatives or other transactions, the Fund assumes the risk that its counterparties could experience similar financial hardships.

Hedging Risk

The Fund s use of derivatives or other transactions to reduce risk involves costs and will be subject to Nuveen Asset Management s ability to predict correctly changes in the relationships of such hedge instruments to the Fund s portfolio holdings or other factors. No assurance can be given that Nuveen Asset Management s judgment in this respect will be correct. In addition, no assurance can be given that the Fund will enter into hedging or other transactions at times or under circumstances in which it may be advisable to do so.

Deflation Risk

Deflation risk is the risk that prices throughout the economy decline over time, which may have an adverse effect on the market valuation of companies, their assets and revenues. In addition, deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of the Fund s portfolio.

Illiquid Securities Risk

The Fund may invest in municipal securities and other instruments that, at the time of investment, are illiquid. Illiquid securities are securities that are not readily marketable and may include some restricted securities, which are securities that may not be resold to the public without an effective registration statement under the 1933 Act, if they are unregistered, may be sold only in a privately negotiated transaction or pursuant to an exemption from registration. Illiquid securities involve the risk that the securities will not be able to be sold at the time desired by the Fund or at prices approximating the value at which the Fund is carrying the securities on its books.

Call Risk

If interest rates fall, it is possible that issuers of callable bonds with higher interest coupons will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during a period of declining interest rates, the Fund is likely to replace such called security with a lower yielding security.

Market Disruption Risk

Certain events have a disruptive effect on the securities markets, such as terrorist attacks (including the terrorist attacks in the U.S. on September 11, 2001), war and other geopolitical events. The Fund cannot predict the effects of similar events in the future on the U.S. economy. Below investment grade securities tend to be more volatile than higher rated securities so that these events and any actions resulting from them may have a greater impact on the prices and volatility of below investment grade securities than on higher rated securities.

Impact of Offering Methods Risk

The issuance of Common Stock through the various methods described in this Prospectus may have an adverse effect on prices in the secondary market for the Fund s Common Stock by increasing the number of shares of Common Stock available for sale. In addition, the shares of Common Stock may be issued at a discount to the market price for such shares, which may put downward pressure on the market price for shares of Common Stock of the Fund.

Certain Affiliations

Certain broker-dealers may be considered to be affiliated persons of the Fund, NFALLC and/or Nuveen Investments. Absent an exemption from the SEC or other regulatory relief, the Fund is generally precluded from effecting certain principal transactions with affiliated brokers, and its ability to purchase securities being underwritten by an affiliated broker or a syndicate including an affiliated broker, or to utilize affiliated brokers for agency transactions, is subject to restrictions. The Fund has not applied for and does not currently intend to apply for such relief. This could limit the Fund s ability to engage in securities transactions, purchase certain adjustable rate senior loans, if applicable, and take advantage of market opportunities. In addition, unless and until the underwriting syndicate is broken in connection with the initial public offering of the Common Stock, the Fund will be precluded from effecting principal transactions with brokers who are members of the syndicate.

Anti-Takeover Provisions

The Fund s Articles include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status. These provisions could have the effect of depriving the Common Stockholders of opportunities to sell their shares of Common Stock at a premium over the then current market price of the shares of Common Stock. See Certain Provisions in the Articles of Incorporation.

MANAGEMENT OF THE FUND

Directors and Officers

The Board of Directors is responsible for the management of the Fund, including supervision of the duties performed by NFALLC. The names and business addresses of the directors and officers of the Fund and their principal occupations and other affiliations during the past five years are set forth under Management of the Fund in the SAI.

Investment Adviser, Sub-Adviser and Portfolio Manager

Investment Adviser. Nuveen Fund Advisors, LLC, the Fund s investment adviser, offers advisory and investment management services to a broad range of mutual fund and closed-end fund clients. NFALLC is responsible for the Fund s overall investment strategy and its implementation. NFALLC also is responsible for managing the Fund s business affairs and providing certain clerical, bookkeeping and other administrative services.

NFALLC, 333 West Wacker Drive, Chicago, Illinois 60606, a registered investment adviser, is a wholly owned subsidiary of Nuveen Investments. Founded in 1898, Nuveen Investments and its affiliates had approximately $219 billion of assets under management as of December 31, 2012.

Sub-Adviser. Nuveen Asset Management, LLC, 333 West Wacker Drive, Chicago, Illinois 60606, serves as the Fund s sub-adviser, pursuant to a sub-advisory agreement between NFALLC and Nuveen Asset Management (the Sub-Advisory Agreement). Nuveen Asset Management is a registered investment adviser, and a wholly-owned subsidiary of NFALLC. Nuveen Asset Management oversees day-to-day investment operations of the Fund. Pursuant to the Sub-Advisory Agreement, Nuveen Asset Management will be compensated for the services it provides to the Fund with a portion of the management fee NFALLC receives from the Fund. NFALLC and Nuveen Asset Management retain the right to reallocate investment advisory responsibilities and fees between themselves in the future.

Nuveen Asset Management is responsible for the execution of specific investment strategies and day-to-day investment operations of the Fund. Nuveen Asset Management manages the funds using a team of analysts and portfolio managers that focuses on a specific group of funds. The day-to-day operation of the Fund and the execution of its specific investment strategies is the primary responsibility of Scott R. Romans, the designated portfolio manager of the Fund.

Portfolio Manager. Scott R. Romans, PhD (the Portfolio Manager), is Vice President of Nuveen Asset Management and has been the portfolio manager of the Fund since 2003. Mr. Romans was, formerly, Assistant Vice President (2003-2004) and Senior Analyst (2000-2003) of Nuveen Asset Management. He holds an undergraduate degree from the University of Pennsylvania and an MA and PhD from the University of Chicago.

Additional information about the Portfolio Manager s compensation, other accounts managed by the Portfolio Manager and the Portfolio Manager s ownership of securities in the Fund is provided in the SAI. The SAI is available free of charge by calling (800) 257-8787 or by visiting the Fund s website at www.nuveen.com. The information contained in, or that can be accessed through, the Fund s website is not part of this Prospectus or the SAI.

Investment Management and Sub-Advisory Agreements

Investment Management Agreement. Pursuant to an investment management agreement between NFALLC and the Fund (the Investment Management Agreement), the Fund has agreed to pay an annual management fee for the services and facilities provided by NFALLC, payable on a monthly basis, based on the sum of a fund-level fee and a complex-level fee, as described below.

Fund-Level Fee. The Fund pays an annual fund-level fee, payable monthly, of 0.15% of the average daily net assets of the Fund, as well as 4.125% of the gross interest income (excluding interest on bonds underlying a self-deposited inverse floater trust that is attributed to the Fund over and above the net interest earned on the inverse floater itself) of the Fund.

Complex-Level Fee. The annual complex-level fee for the Fund, payable monthly, is calculated according to the following schedule:

Complex-Level Managed Asset Breakpoint Level(1)	Effective Rate at Breakpoint Level
$55 billion	0.2000%
$56 billion	0.1996%
$57 billion	0.1989%
$60 billion	0.1961%
$63 billion	0.1931%
$66 billion	0.1900%
$71 billion	0.1851%
$76 billion	0.1806%
$80 billion	0.1773%
$91 billion	0.1691%
$125 billion	0.1599%
$200 billion	0.1505%
$250 billion	0.1469%
$300 billion	0.1445%

(1) The complex-level fee is calculated based upon the aggregate daily eligible assets of all Nuveen Funds. Eligible assets do not include assets attributable to investments in other Nuveen Funds or assets in excess of a determined amount (originally $2 billion) added to the Nuveen fund complex in connection with NFALLC s assumption of the management of the former First American Funds effective January 1, 2011. With respect to closed-end funds, eligible assets include assets managed by NFALLC that are attributable to financial leverage. For these purposes, financial leverage includes the use of preferred stock and borrowings and certain investments in the residual interest certificates in tender option bond (TOB) trusts, including the portion of assets held by a TOB trust that has been effectively financed by issuance of floating rate securities, subject to an agreement by NFALLC as to certain funds to limit the amount of such assets for determining eligible assets in certain circumstances. As of February 28, 2013, the complex-level fee rate for the Fund was 0.1668%.

A discussion regarding the basis for the Board of Directors decision to renew the Investment Management Agreement for the Fund may be found in the Fund s semi-annual report to shareholders dated August 31 of each year.

In addition to the fee of NFALLC, the Fund pays all other costs and expenses of its operations, including compensation of its directors (other than those affiliated with NFALLC and Nuveen Asset Management), custodian, transfer agency and dividend disbursing expenses, legal fees, expenses of independent auditors, expenses of repurchasing shares, expenses associated with any borrowings, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any. All fees and expenses are accrued daily and deducted before payment of dividends to investors.

45

Sub-Advisory Agreement. Pursuant to the Sub-Advisory Agreement, Nuveen Asset Management will receive from NFALLC a management fee equal to 71.4286% of NFALLC s net management fee from the Fund. NFALLC and Nuveen Asset Management retain the right to reallocate investment advisory responsibilities and fees between themselves in the future.

A discussion regarding the basis for the Board of Directors decision to renew the Sub-Advisory Agreement may be found in the Fund s semi-annual report to shareholders dated August 31 of each year.

NET ASSET VALUE

The Fund s net asset value per share is determined as of the close of regular session trading (normally 4:00 p.m., Eastern Time) on each day the NYSE is open for business. Net asset value is calculated by taking the market value of the Fund s total assets, including interest or dividends accrued but not yet collected, less all liabilities, and dividing by the total number of shares outstanding. The result, rounded to the nearest cent, is the net asset value per share. All valuations are subject to review by the Fund s Board of Directors or its delegate.

In determining net asset value, expenses are accrued and applied daily and securities and other assets for which market quotations are available are valued at market value. The prices of municipal bonds are provided by a pricing service approved by the Fund s Board of Directors. When market price quotes are not readily available (which is usually the case for municipal securities), the pricing service, or, in the absence of a pricing service for a particular security, the Board of Directors of the Fund, or its designee, may establish fair market value using a wide variety of market data including yields or prices of municipal bonds of comparable quality, type of issue, coupon, maturity and rating, market quotes or indications of value from securities dealers, evaluations of anticipated cash flows or collateral, general market conditions and other information and analysis, including the obligor s credit characteristics considered relevant by the pricing service or the Board of Directors designee. Exchange-listed securities are generally valued at the last sales price on the securities exchange on which such securities are primarily traded. Securities traded on a securities exchange for which there are no transactions on a given day or securities not listed on a securities exchange are valued at the mean of the closing bid and asked prices. Securities traded on Nasdaq are valued at the Nasdaq Official Closing Price. Temporary investments in securities that have variable rate and demand features qualifying them as short-term investments are valued at amortized cost, which approximates market value. See Net Asset Value in the SAI for more information.

DISTRIBUTIONS

The Fund pays regular monthly cash distributions to Common Stockholders at a level rate (stated in terms of a fixed cents per Common Stock dividend rate) that reflects the past and projected performance of the Fund. Distributions can only be made from net investment income after paying any interest and required principal payments on borrowings.

The Fund might not distribute all or a portion of any net capital gain for a taxable year. If the Fund does not distribute all of its net capital gain for a taxable year, it will pay federal income tax on the retained gain. Each Common Stockholder of record as of the end of the Fund s taxable year (i) will include in income for federal income tax purposes as a long-term capital gain, his or her share of the retained gain, (ii) will be deemed to have paid his or her proportionate share of tax paid by the Fund on such retained gain, and (iii) will be entitled to an income tax credit or refund for that share of the tax. The Fund will treat the retained capital gains as a substitute for equivalent cash distributions. While not currently anticipated, if the Fund makes total distributions during a given calendar year in an amount that exceeds the Fund s net investment income and net capital gain for that calendar year, the excess would generally be treated by Common Stockholders as a return of capital for tax purposes. A return of capital reduces a Stockholder s tax basis which could result in higher taxes when the Stockholder sells his or her stocks. This may cause the Stockholder to pay taxes even if he or she sells stocks for less than the original price.

The Fund reserves the right to change its distribution policy and the basis for establishing the rate of its monthly distributions at any time.

DIVIDEND REINVESTMENT PLAN

If your shares of Common Stock are registered directly with the Fund or if you hold your shares of Common Stock with a brokerage firm that participates in the Fund s Dividend Reinvestment Plan (the Plan), you may elect to have all dividends, including any capital gain dividends, on your Common Stock automatically reinvested by the Plan Agent (defined below) in additional Common Stock under the Plan. You may elect to participate in the Plan by contacting Nuveen Investor Services at (800) 257-8787. If you do not participate, you will receive all distributions in cash paid by check mailed directly to you or your brokerage firm by State Street Bank and Trust Company as dividend paying agent (the Plan Agent).

If you decide to participate in the Plan, the number of shares of Common Stock you will receive will be determined as follows:

(1) If shares of Common Stock are trading at or above net asset value at the time of valuation, the Fund will issue new shares at the then current market price;

(2) If shares of Common Stock are trading below net asset value at the time of valuation, the Plan Agent will receive the dividend or distribution in cash and will purchase shares of Common Stock in the open market, on the NYSE or elsewhere, for the participants accounts. It is possible that the market price for the shares of Common Stock may increase before the Plan Agent has completed its purchases. Therefore, the average purchase price per share paid by the Plan Agent may exceed the market price at the time of valuation, resulting in the purchase of fewer shares than if the dividend or distribution had been paid in shares of Common Stock issued by the Fund. The Plan Agent will use all dividends and distributions received in cash to purchase shares of Common Stock in the open market within 30 days of the valuation date. Interest will not be paid on any uninvested cash payments; or

(3) If the Plan Agent begins purchasing Fund shares on the open market while shares are trading below net asset value, but the Fund s shares subsequently trade at or above their net asset value before the Plan Agent is able to complete its purchases, the Plan Agent may cease open-market purchases and may invest the uninvested portion of the distribution in newly-issued Fund shares at a price equal to the greater of the shares net asset value or 95% of the shares market value.

You may withdraw from the Plan at any time by giving written notice to the Plan Agent. If you withdraw or the Plan is terminated, you will receive whole shares in your account under the Plan and you will receive a cash payment for any fraction of a share in your account. If you wish, the Plan Agent will sell your shares and send you the proceeds, minus brokerage commissions and a $2.50 service fee.

The Plan Agent maintains all shareholders accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. Upon a repurchase of your shares, the Fund (or its administrative agent) may be required to report to the IRS and furnish to you cost basis and holding period information for the Fund s shares purchased on or after January 1, 2012 (covered shares).

For shares of the Fund held in the Plan, you are permitted to elect from among several permitted cost basis methods. In the absence of an election, the Plan will use first-in first-out (FIFO) methodology for tracking and reporting your cost basis on covered shares as its default cost basis method. The cost basis method you use may not be changed with respect to a repurchase of shares after the settlement date of the repurchase. You should consult with your tax advisors to determine the best permitted cost basis method for your tax situation and to obtain more information about how the new cost basis reporting rules apply to you.

Common Stock in your account will be held by the Plan Agent in non-certificated form. Any proxy you receive will include all shares of Common Stock you have received under the Plan.

There is no brokerage charge for reinvestment of your dividends or distributions in shares of Common Stock. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon receiving dividends and distributions.

If you hold your Common Stock with a brokerage firm that does not participate in the Plan, you will not be able to participate in the Plan and any dividend reinvestment may be effected on different terms than those described above. Consult your financial advisor for more information.

The Fund reserves the right to amend or terminate the Plan if in the judgment of the Board of Directors the change is warranted. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan may be obtained by writing to State Street Bank and Trust Company, Attn: ComputerShare Nuveen Investments, P.O. Box 43071, Providence, Rhode Island 02940-3071 or by calling (800) 257-8787.

PLAN OF DISTRIBUTION

The Fund may sell the Common Stock offered under this Prospectus through

- at-the-market transactions;
- underwriting syndicates; and
- privately negotiated transactions.

The Fund will bear the expenses of the offering, including but not limited to, the expenses of preparation of the Prospectus and SAI for the offering and the expense of counsel and auditors in connection with the offering.

Distribution Through At-the-Market Transactions

The Fund has entered into a distribution agreement with Nuveen Securities (the Distribution Agreement), which has been filed as an exhibit to the Registration Statement of which this Prospectus is a part. The summary of the Distribution Agreement contained herein is qualified by reference to the Distribution Agreement. Subject to the terms and conditions of the Distribution Agreement, the Fund may from time to time issue and sell its Common Stock through Nuveen Securities to certain broker-dealers which have entered into selected dealer agreements with

Nuveen Securities. Currently, Nuveen Securities has entered into a selected dealer agreement (the Selected Dealer Agreement) with Stifel, Nicolaus & Company, Incorporated (Stifel Nicolaus), pursuant to which Stifel Nicolaus will act as the exclusive sub-placement agent with respect to at-the-market offerings of the Common Stock. The Selected Dealer Agreement has been filed as an exhibit to the Registration Statement of which this Prospectus forms a part. The summary of the Selected Dealer Agreement contained herein is qualified by reference to the Selected Dealer Agreement.

Common Stock will only be sold on such days as shall be agreed to by the Fund, Nuveen Securities and Stifel Nicolaus. Common Stock will be sold at market prices, which shall be determined with reference to trades on the NYSE, subject to a minimum price to be established each day by Nuveen Securities. The minimum price on any day will not be less than the current net asset value per share of Common Stock plus the per share amount of the commission to be paid to Nuveen Securities. Nuveen Securities and Stifel Nicolaus will suspend the sale of Common Stock if the per share price of the shares is less than the minimum price.

The Fund will compensate Nuveen Securities with respect to sales of Common Stock at a commission rate of up to 1.0% of the gross proceeds of the sale of Common Stock. Nuveen Securities will compensate broker-dealers at a rate of up to 0.8% of the gross proceeds of the sale of Common Stock sold by that broker-dealer. Settlements of sales of Common Stock will occur on the third business day following the date on which any such sales are made.

In connection with the sale of the Common Stock on behalf of the Fund, Nuveen Securities may be deemed to be an underwriter within the meaning of the 1933 Act, and the compensation of Nuveen Securities may be deemed to be underwriting commissions or discounts. Unless otherwise indicated in a Prospectus supplement, Nuveen Securities will act as underwriter on a reasonable efforts basis.

The offering of Common Stock pursuant to the Distribution Agreement will terminate upon the earlier of (i) the sale of all Common Stock subject thereto or (ii) termination of the Distribution Agreement. The Fund and Nuveen Securities each have the right to terminate the Distribution Agreement in its discretion at any time.

The Fund currently intends to distribute the shares offered pursuant to this Prospectus primarily through at-the-market transactions, although from time to time it may also distribute shares through an underwriting syndicate or a privately negotiated transaction. To the extent shares are distributed other than through at-the-market transactions, the Fund will file a supplement to this Prospectus describing such transactions.

The Fund s closing price on the NYSE on May 16, 2013 was $10.29.

Distribution Through Underwriting Syndicates

The Fund from time to time may issue additional Common Stock through a syndicated secondary offering. In order to limit the impact on the market price of the Fund s shares of Common Stock, underwriters will market and price the offering on an expedited basis (*e.g.*, overnight or similarly abbreviated offering period). The Fund will launch a syndicated offering on a day, and upon terms, mutually agreed upon between the Fund, Nuveen Securities, one of the Fund s underwriters, and the underwriting syndicate.

The Fund will offer its shares at a price equal to a specified discount of up to 5% from the closing market price of the Fund s shares of Common Stock on the day prior to the offering date. The applicable discount will be negotiated by the Fund and Nuveen Securities in consultation with the underwriting syndicate on a transaction-by-transaction basis. The Fund will compensate the underwriting syndicate out of the proceeds of the offering based upon a sales load of up to 4% of the gross proceeds of the sale of Common Stock. The minimum net proceeds per share to the Fund will not be less than the greater of (i) the Fund s latest net asset value per share of Common Stock or (ii) 91% of the closing market price of the shares of the Fund s Common Stock on the day prior to the offering date.

Distribution Through Privately Negotiated Transactions

The Fund, through Nuveen Securities, from time to time may sell directly to, and solicit offers from, institutional and other sophisticated investors, who may be deemed to be underwriters as defined in the 1933 Act for any resale of Common Stock.

The terms of such privately negotiated transactions will be subject to the discretion of the management of the Fund. In determining whether to sell Common Stock through a privately negotiated transaction, the Fund will consider relevant factors including, but not limited to, the attractiveness of obtaining additional funds through the sale of Common Stock, the purchase price to apply to any such sale of Common Stock and the person seeking to purchase the Common Stock.

Shares of Common Stock issued by the Fund through privately negotiated transactions will be issued at a price equal to the greater of (i) the net asset value per share of the Fund s Common Stock or (ii) at a discount ranging from 0% to 5% of the average daily closing market price of the Fund s Common Stock at the close of business on the two business days preceding the date upon which shares of Common Stock are sold pursuant to the privately negotiated transaction. The applicable discount will be determined by the Fund on a transaction-by-transaction basis.

The principal business address of Nuveen Securities is 333 West Wacker Drive, Chicago, Illinois 60606.

DESCRIPTION OF SHARES

Common Stock

The Articles authorize the issuance of 250,000,000 shares of Common Stock. All shares of Common Stock have equal rights to the payment of dividends and the distribution of assets upon liquidation. Shares of Common Stock are, when issued, fully paid and non-assessable, and have no pre-emptive or conversion rights except as the directors may determine or rights to cumulative voting. Each share of Common Stock has one vote with respect to matters upon which a shareholder vote is required, consistent with the requirements of the 1940 Act and the rules promulgated thereunder, and will vote together as a single class. Each whole share of Common Stock shall be entitled to one vote as to any matter on which it is entitled to vote and each fractional share shall be entitled to a proportional fractional vote. The Fund pays monthly dividends, typically on the first business day of the following month.

The Fund s Common Stock is listed on the NYSE. The Fund intends to hold annual meetings of stockholders so long as the Fund s shares are listed on a national securities exchange and such meetings are required as a condition to such listing.

Unlike open-end funds, closed-end funds like the Fund do not provide daily redemptions. Rather, if a shareholder determines to buy additional Common Stock or sell shares already held, the shareholder may conveniently do so by trading on the exchange through a broker or otherwise. Shares of closed-end investment companies may frequently trade on an exchange at prices lower than net asset value. Shares of closed-end investment companies like the Fund have during some periods traded at prices higher than net asset value and have during other periods traded at prices lower than net asset value.

Because the market value of the Common Stock may be influenced by such factors as distribution levels (which are in turn affected by expenses), call protection, dividend stability, portfolio credit quality, net asset value, relative demand for and supply of such shares in the market, general market and economic conditions, and other factors beyond the control of the Fund, the Fund cannot assure you that Common Stock will trade at a price equal to or higher than net asset value in the future. The Common Stock are designed primarily for long-term investors, and investors in the Common Stock should not view the Fund as a vehicle for trading purposes. See Repurchase of Fund Shares; Conversion to Open-End Fund.

The Fund may borrow money for repurchase of its shares or as a temporary measure for extraordinary or emergency situations. See Investment Restrictions in the SAI.

Other Shares

The Fund is currently authorized to issue only shares of Common Stock.

CERTAIN PROVISIONS IN THE ARTICLES OF INCORPORATION

Stockholder and Director Liability. Under the Minnesota Business Corporation Act, a subscriber for shares or a shareholder of a corporation is under no obligation to the corporation or its creditors with respect to the shares subscribed for or owned, except to pay the corporation the full agreed-upon consideration for the shares. However, a shareholder who receives a distribution which is made in violation of the Minnesota Business Corporation Act s limitations on distributions is liable to the corporation to the extent that the distribution exceeded the amount that properly could have been paid.

The Articles provide that the Fund s obligations are not binding upon the Fund s directors individually, but only upon the Fund s assets and property and provide for the indemnification of directors individually by the Fund for certain liabilities arising out of the performance of their duties to the Fund to the maximum extent permitted under Minnesota law. Nothing in the Articles, however, protects a director against any liability to which he or she would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Anti-Takeover Provisions. The Articles include provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund. Specifically, the Articles require the affirmative vote of the holders of at least 66 $^{2}/_{3}$% of the Fund s outstanding shares of Common Stock then entitled to be voted to authorize any of the following transactions:

(1) conversion of the Fund from a closed-end investment company to an open-end investment company,

(2) a merger or consolidation of the Fund with any other corporation or a reorganization or recapitalization,

(3) a sale, lease or transfer of all or substantially all of the Fund s assets (other than in the regular course of the Fund s investment activities), or

(4) a liquidation or dissolution of the Fund,

unless such action has previously been approved, adopted or authorized by the affirmative vote of two-thirds of the total number of directors fixed in accordance with the By-Laws. The 66 $^{2}/_{3}$% vote required under certain circumstances to approve the conversion of the Fund from a closed-end to an open-end investment company or to approve the other transactions described above are higher than those required by the 1940 Act. The Board of Directors is divided into three classes, such a staggered board could delay for up to two years the replacement of a majority of the Board of Directors. See the SAI under Certain Provisions in the Articles of Incorporation.

The provisions of the Articles described above could have the effect of depriving the Common Stockholders of opportunities to sell their shares of Common Stock at a premium over the then current market price of the shares of Common Stock by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a third party. They provide, however, the advantage of potentially requiring persons seeking control of the Fund to negotiate with its management regarding the price to be paid and facilitating the continuity of the Fund s investment objectives and policies. The Board of Directors of the Fund has considered the foregoing anti-takeover provisions and concluded that they are in the best interests of the Fund and its Common Stockholders.

Reference should be made to the Articles on file with the SEC for the full text of these provisions.

51

REPURCHASE OF FUND SHARES; CONVERSION TO OPEN-END FUND

The Fund is a closed-end investment company and as such its stockholders will not have the right to cause the Fund to redeem their shares. Instead, the shares of Common Stock will trade in the open market at a price that will be a function of several factors, including dividend levels (which are in turn affected by expenses), net asset value, call protection, dividend stability, portfolio credit quality, relative demand for and supply of such shares in the market, general market and economic conditions and other factors. Because shares of closed-end investment companies may frequently trade at prices lower than net asset value, the Fund s Board of Directors has currently determined that, at least annually, it will consider action that might be taken to reduce or eliminate any material discount from net asset value in respect of shares of Common Stock, which may include the repurchase of such shares in the open market or in private transactions, the making of a tender offer for such shares at net asset value, or the conversion of the Fund to an open-end investment company. The Fund cannot assure you that its Board of Directors will decide to take any of these actions, or that share repurchases or tender offers will actually reduce market discount.

If the Fund converted to an open-end investment company, shares of Common Stock would no longer be listed on the NYSE. In contrast to a closed-end investment company, shareholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by or under the 1940 Act) at their net asset value, less any redemption charge that is in effect at the time of redemption. See the SAI under Certain Provisions in the Articles of Incorporation for a discussion of the voting requirements applicable to the conversion of the Fund to an open-end investment company.

Before deciding whether to take any action if the shares of Common Stock trade below net asset value, the Board would consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund s portfolio, the impact of any action that might be taken on the Fund or its shareholders, and market considerations. Based on these considerations, even if the Fund s shares should trade at a discount, the Board of Directors may determine that, in the interest of the Fund and its shareholders, no action should be taken. See the SAI under Repurchase of Fund Shares; Conversion to Open-End Fund for a further discussion of possible action to reduce or eliminate such discount to net asset value. On November 16, 2011, the Fund s Board of Directors approved an open market share repurchase program under which the Fund may repurchase up to 10% of its Common Stock. To date, the Fund has not repurchased any shares of Common Stock under the program.

TAX MATTERS

The following information is meant as a general summary for U.S. shareholders. Please see the SAI for additional information. Investors should rely on their own tax adviser for advice about the particular federal, state and local tax consequences to them of investing in the Fund.

The Fund has elected and intends to qualify each year to be treated as a regulated investment company (RIC) under the Internal Revenue Code of 1986, as amended (the Code). In order to qualify for treatment as a RIC, the Fund must satisfy certain requirements regarding the sources of its income, the diversification of its assets and the distribution of its income. As a RIC, the Fund is not expected to be subject to federal income tax. The Fund primarily invests in municipal securities (as defined above) issued by states, cities and local authorities and certain possessions and territories of the United States (such as Puerto Rico or Guam) or municipal securities whose income is otherwise exempt from regular federal income taxes. Substantially all of the Fund s dividends paid to you are expected to qualify as exempt-interest dividends. A shareholder treats an exempt-interest dividend as interest on state and local bonds exempt from regular federal income tax. Federal income tax law imposes an alternative minimum tax with respect to corporations, individuals, trust and estates. Interest on certain municipal securities, such as certain private activity bonds, is included as an item of tax preference in determining the amount of a taxpayer s alternative minimum taxable income. If the Fund receives income from such municipal securities, a portion of the dividends paid by the Fund, although exempt from regular federal income tax, will be taxable to shareholders whose tax liabilities are determined under the federal alternative minimum tax. The Fund will annually provide a report indicating the percentage of the Fund s income attributable to municipal securities and the percentage includable in federal alternative minimum taxable income. Corporations are subject to special rules in calculating their federal alternative minimum taxable income with respect to interest from municipal securities.

In addition to exempt-interest dividends, the Fund may also distribute to its shareholders amounts that are treated as long-term capital gain or ordinary income (which may include short-term capital gains). These distributions are generally subject to regular federal income tax, whether or not reinvested in additional shares. Capital gain distributions are generally taxable at rates applicable to long-term capital gains regardless of how long a shareholder has held its shares. Long-term capital gains are taxable to noncorporate taxpayers at rates of up to 20%. The Fund does not expect that any part of its distributions to shareholders from its investments will qualify for the dividends-received deduction available to corporate shareholders or as qualified dividend income, which is taxable to noncorporate shareholders at reduced maximum U.S. federal income tax rates.

A 3.8% Medicare contribution tax generally applies to all or a portion of the net investment income of a shareholder who is an individual and not a nonresident alien for federal income tax purposes and who has adjusted gross income (subject to certain adjustments) that exceeds a threshold amount ($250,000 if married filing jointly or if considered a surviving spouse for federal income tax purposes, $125,000 if married filing separately, and $200,000 in other cases). This 3.8% tax also applies to all or a portion of the undistributed net investment income of certain shareholders that are estates and trusts. For these purposes, interest, dividends and certain capital gains are generally taken into account in computing a shareholder s net investment income, but exempt-interest dividends are not taken into account.

As a regulated investment company, the Fund will not be subject to federal income tax in any taxable year provided that it meets certain distribution requirements. As described in Distributions above, the Fund might not distribute some (or all) of its net capital gain. If the Fund retains any net capital gain or taxable net investment income, it will be subject to tax at regular corporate rates on the amount retained. If the Fund retains any net capital gain, it may designate the retained amount as undistributed capital gains in a notice to its shareholders who, if subject to federal income tax on long-term capital gains, (i) will be required to include in income for federal income tax purposes, as long-term capital gain, their shares of such undistributed amount; (ii) will be deemed to have paid their proportionate shares of the tax paid by the Fund on such undistributed amount and will be entitled to credit that amount of tax against their federal income tax liabilities, if any; and (iii) will be entitled to claim refunds to the extent the credit exceeds such liabilities. For federal income tax purposes, the tax basis of shares owned by a shareholder of the Fund will be increased by an amount equal to the difference between the amount of undistributed capital gains included in the shareholder s gross income and the tax deemed paid by the shareholder.

Dividends declared by the Fund in October, November or December, payable to shareholders of record in such a month, and paid during the following January will be treated as having been received by shareholders in the year the distributions were declared.

Each shareholder will receive an annual statement summarizing the shareholder s dividend and capital gains distributions.

The repurchase, sale or exchange of shares of Common Stock normally will result in capital gain or loss to holders of Common Stock who hold their shares as capital assets. Generally a shareholder s gain or loss will be long-term capital gain or loss if the shares have been held for more than one year even though the increase in value in such shares of Common Stock may be at least partly attributable to tax-exempt interest income. Present law taxes both long-term and short-term capital gains of corporations at the rates applicable to ordinary income. For noncorporate taxpayers, however, long-term capital gains are taxed at rates of up to 20%. Short-term capital gains and other ordinary income are taxed to noncorporate taxpayers at ordinary income rates. If a shareholder sells or otherwise disposes of shares of Common Stock before holding them for six months, any loss on the sale or disposition will be treated as a long-term capital loss to the extent of any amounts treated as distributions to the Common Stockholder of long-term capital gain (including any amount credited to the Common Stockholder as undistributed capital gain). Any loss realized on a sale or exchange of shares of the Fund will be disallowed to the extent those shares of the Fund are replaced by substantially identical shares of the Fund (including shares acquired by reason of participation in the Plan) within a period of 61 days beginning 30 days before and ending 30 days after the date of disposition of the original shares, or to the extent the Shareholder enters into a contract or option to repurchase shares within such period. In that event, the basis of the replacement shares of the Fund will be adjusted to reflect the disallowed loss.

Any interest on indebtedness incurred or continued to purchase or carry the Fund s shares to which exempt-interest dividends are allocated is not deductible. Under certain applicable rules, the purchase or ownership of shares may be considered to have been made with borrowed funds even though such funds are not directly used for the purchase or ownership of the shares. In addition, if you receive social security or certain railroad retirement benefwidth="3%"> **Number of**
employees Office Total Average managerial Production Average quarterly wage
per Classification positions positions Others Total service year wage person Remarks

Male
3,741 3,741 9.6 170,937 45.7
Female
534 534 8.0 20,297 38.0
Total
4,275 4,275 9.4 191,234 44.7

VIII. TRANSACTIONS WITH RELATED PARTIES

1. Transactions with the Largest Shareholder

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

33

Table of Contents

(Unit: in million Won)

Name (Corporate name)	Relationship	Account category	Beginning	Change details Increase	Decrease	Ending	Accrued interest	Remarks
SK Wyverns	Affiliated company	Long-term and short-term loans	5,857		575	5,282	356	

B. Equity Investments

(Unit: in million Won)

Name (Corporate name)	Relationship	Types of Investment	Details Beginning	Increase	Decrease	Ending	Note
SLD Telecom, Pte. Ltd.	Affiliated company	Common share	93,987	97,285		191,272	
SKT U.S.A. Holdings	Affiliated company	Common share	123,214	75,499		198,713	
SK Mobile	Affiliated company	Common share		10,322		10,322	
SKT-HP Fund	Affiliated company	Common share	6,415		6,415		
iHQ	Affiliated company	Common share	14,440	27,352		41,792	
Cyworld Japan Co., Ltd.	Affiliated company	Common share	1,309	1,832		3,141	
China STC	Affiliated company	Common share		1,343		1,343	
	Total		239,365	213,633	6,415	446,583	

34

Table of Contents

C. Transfer of Assets

(Unit: in thousand won)

Name (Corporate name)	Relationship	Objective	Transfer details: Transfer purpose	Transfer date	Amount: Transfer (out) amount	Transfer (in) amount	Remarks
EnCar Network	Affiliated company	12 vehicles	Disposition of surplus vehicles	January to June 2006		120,819	
		Total				120,819	

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

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

* Agents

(Unit: in million Won)

Name (Corporate name)	Relationship	Account category	Beginning	Change details: Increase	Decrease	Ending	Accrued interest	Remarks
A1 and others	Agency	Long-term and short-term loans	62,776	74,783	76,533	61,026	10	

* Overseas investment companies

(Unit: in million Won)

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

35

Table of Contents

B. Equity Investments

(Unit: in million Won)

Name (Corporate name)	Relationship	Types of Investment	Details Beginning	Increase	Decrease	Ending	Remarks
Flarion Technologies, Inc.	Affiliated party	Convertible preferred share	3,638		3,638		
Qualcomm, Inc.	Affiliated party	Common share		2,756		2,756	
Mobile Welcome Co.	Affiliated party	Common share	1,000		1,000		
Cyper Casting	Affiliated party	Common share		141		141	
	Total		4,638	2,897	4,638	2,897	

IX. OTHER RELEVANT MATTERS

1. Developments in the Items mentioned in prior Reports on Important Business Matters

A. Status and Progress of Major Management Events

Date of Disclosure in Korea	Title	Report	Reports status
October 26, 2001	Resolution on trust agreement for the acquisition of treasury shares and others	1. Signatories: Shinhan Bank, Hana Bank, Cho Hung Bank, Korea Exchange Bank 2. Contract amount: Won 1,300 billion 3. Purpose: to increase shareholder value	1. On December 24, 2003, cash surplus amount from the existing trust agreement was partially reduced (Won 318 billion). 2. On September 24, 2004, the Board of Directors extended the term of the specified monetary trust agreement for 3 years. 3. As of March 31, 2006, the balance of specified monetary trust for treasury shares was Won 982 billion.

Table of Contents

2. Summary Minutes of the Shareholders Meeting

Date	Agenda	Resolution
Meeting of Shareholders for the year ended December 31, 2005 (March 10, 2006)	1. Approval of the financial statements for the year ended December 31, 2005	Approved (Cash dividend, Won 8,000 per share)
	2. Amendment of the Articles of Incorporation	Approved (Addition of business objective: travel business)
	3. Remuneration limit for Directors	Approved (Won 12 billion)
	4. Election of Directors (Election of Independent non-executive directors as Audit Committee members)	Approved (Kim Yong Woon and Im Hyun Jin)

3. Contingent Liabilities

A. Material Legal Proceedings

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

a) Parties to the litigation: Park Won Sup (plaintiff) vs. the Company (defendant)

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

c) Progress: The Patent Court dismissed plaintiff s claim (September 2005), after which the plaintiff appealed.

d) Impact on business: In the event that the case is decided against the Company, there is a risk of material future royalty obligations. However, given the progress of the proceedings, the estimated impact should not be large; however, the actual impact may differ depending on future events.

(2) Actions for the Cancellation of the International Registration for Satellite Network

a) Parties to the litigation: Korea Multinet Co., Ltd. (Korea Multinet) vs. the Ministry of Information and Communication (MIC ; the Company is participating in the action on behalf of MIC)

b) Overview: Korea Multinet brought an administrative action against MIC to cancel the Company s international satellite frequency registration related to the satellite DMB business.

c) Progress: The trial court found for the defendant and the appellate court affirmed the judgment of the trial court (June 30, 2004). The plaintiff appealed and the case is currently pending at the Supreme Court.

d) Impact on business: Given the progress of the proceedings, no significant impact on the Company s business is expected; however, the actual impact may differ depending on future events.

(3) Actions for the Cancellation of Key Communication Business Licenses and Allotment of Satellite DMB Frequency

a) Parties to the litigation: Korea Multinet vs. MIC (the Company is participating in the action on behalf of MIC)

Table of Contents

b) Overview: Korea Multinet brought an administrative action against MIC to cancel the Company s key communication business licenses and the allotment of the Company s satellite DMB frequency.

c) Progress: Trial currently in progress

d) Impact on business: The Company plans to provide full support to MIC in the action although no significant impact to the Company s business is expected; however, the actual impact may differ depending on future events.

38

Table of Contents

SK TELECOM CO., LTD.

NON-CONSOLIDATED FINANCIAL STATEMENTS
THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
AND INDEPENDENT ACCOUNTANTS REVIEW REPORT

39

Table of Contents

Independent Accountants Review Report

English Translation of a Report Originally Issued in Korean

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

We have reviewed the accompanying non-consolidated balance sheet of SK Telecom Co., Ltd. (the Company) as of September 30, 2006 and the related non-consolidated statements of income and cash flows for the three months and nine months ended September 30, 2006 and 2005, all expressed in Korean won. These financial statements are the responsibility of the Company s management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with standards for review of interim financial statements in the Republic of Korea. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the financial statements referred to above are not presented fairly, in all material respects, in conformity with accounting principles generally accepted in the Republic of Korea.

We have previously audited, in accordance with auditing standards generally accepted in the Republic of Korea, the non-consolidated balance sheet of the Company as of December 31, 2005, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the year then ended (not presented herein); and in our report dated February 3, 2006, we expressed an unqualified opinion on those non-consolidated financial statements. The accompanying balance sheet as of December 31, 2005, which is comparatively presented, does not differ in material respects from such audited non-consolidated balance sheet.

Table of Contents

Our reviews also comprehended the translation of the Korean won amounts into U.S. dollar amounts and nothing has come to our attention that causes us to believe that such translation has not been made in conformity with the basis stated in Note 2(a). Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea. Accounting principles and review standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting principles and review standards and their application in practice.

October 27, 2006

/s/ Deloitte Anjin LLC

Seoul, Republic of Korea

Notice to Readers

This report is effective as of October 27, 2006, the accountants review report date. Certain subsequent events or circumstances may have occurred between the accountants review report date and the time the accountants review report is read. Such events or circumstances could significantly affect the accompanying financial

41

Table of Contents

statements and may result in modification to the accountants review report.

Table of Contents

SK TELECOM CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2006 AND DECEMBER 31, 2005
(See Independent Accountants Review Report)

	Korean won		Translation into U.S. dollars (Note 2)	
	September 30, 2006	December 31, 2005	September 30, 2006	December 31, 2005
	(In millions)		(In thousands)	
ASSETS				
CURRENT ASSETS :				
Cash and cash equivalents (Notes 2 and 11)	₩ 331,520	₩ 151,766	$ 350,444	$ 160,429
Short-term financial instruments	121,467	73,062	128,401	77,233
Trading securities (Notes 2 and 3)	483,114	745,360	510,691	787,907
Current portion of long-term investment securities (Notes 2 and 3)	125		132	
Accounts receivable trade, net of allowance for doubtful accounts of ₩108,530 million as of September 30, 2006 and ₩121,319 million as of December 31, 2005 (Notes 2, 11 and 21)	1,575,379	1,607,596	1,665,305	1,699,362
Short-term loans, net of allowance for doubtful accounts of ₩9,181 million at September 30, 2006 and ₩648 million at December 31, 2005 (Notes 2, 5 and 21)	58,889	64,150	62,251	67,812
Accounts receivable other, net of allowance for doubtful accounts of ₩18,464 million at September 30, 2006 and ₩14,246 million at December 31, 2005 (Notes 2, 11 and 21)	1,319,083	1,333,238	1,394,379	1,409,342
Inventories (Note 2)	16,891	5,986	17,855	6,328
Prepaid expenses	125,177	101,274	132,322	107,055
Current deferred income tax assets, net (Notes 2 and 16)	67,637	61,152	71,498	64,643
Currency swap (Notes 2 and 23)	4,358		4,607	
Advanced payments and other	17,987	28,901	19,014	30,550
Total Current Assets	4,121,627	4,172,485	4,356,899	4,410,661
NON-CURRENT ASSETS :				
Property and equipment, net (Notes 2, 6, 10, 20 and 21)	4,371,898	4,595,883	4,621,457	4,858,227
Intangible assets, net (Notes 2 and 7)	3,169,353	3,386,547	3,350,267	3,579,859
	1,855,225	1,203,333	1,961,126	1,272,022

Long-term investment securities (Notes 2 and 3)				
Equity securities accounted for using the equity method (Notes 2 and 4)	1,246,803	925,904	1,317,974	978,757
Long-term loans, net of allowance for doubtful accounts of ₩23,720 million at September 30, 2006 and ₩23,737 million at December 31, 2005 (Notes 2, 5 and 21)	12,502	14,204	13,216	15,015
Guarantee deposits, net of allowance for doubtful accounts of ₩163 million as of September 30, 2006 and ₩312 million at December 31, 2005 (Notes 2, 11 and 21)	117,262	122,846	123,956	129,858
Long-term deposits and other (Note 18)	109,663	100,474	115,922	106,210
Total Non-Current Assets	10,882,706	10,349,191	11,503,918	10,939,948
TOTAL ASSETS	₩ 15,004,333	₩ 14,521,676	$ 15,860,817	$ 15,350,609

(Continued)

43

Table of Contents

SK TELECOM CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)
SEPTEMBER 30, 2006 AND DECEMBER 31, 2005
(See Independent Accountants Review Report)

	Korean won		Translation into U.S. dollars (Note 2)	
	September 30, 2006	December 31, 2005	September 30, 2006	December 31, 2005
	(In millions)		(In thousands)	
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES :				
Accounts payable (Notes 11 and 21)	₩ 1,044,347	₩ 971,558	$ 1,103,961	$ 1,027,017
Income tax payable	270,024	366,579	285,438	387,504
Accrued expenses (Notes 2 and 22)	328,269	362,178	347,007	382,852
Dividend payable	294	298	311	315
Withholdings	297,810	205,060	314,810	216,765
Current portion of long-term debt, net (Notes 2, 8 and 10)	946,823	809,490	1,000,870	855,698
Current portion of subscription deposits (Note 9)	15,769	14,875	16,669	15,724
Advanced receipts and other	24,037	17,230	25,409	18,214
Total Current Liabilities	2,927,373	2,747,268	3,094,475	2,904,089
LONG-TERM LIABILITIES :				
Bonds payable, net (Notes 2 and 8)	2,094,360	2,314,208	2,213,911	2,446,309
Long-term borrowings (Note 8)	200,000		211,416	
Subscription deposits (Note 9)	21,666	23,770	22,903	25,127
Long-term payables other, net of present value discount of ₩45,756 million as of September 30, 2006 and ₩58,413 million as of December 31, 2005 (Note 2)	514,244	591,587	543,598	625,356
Obligations under capital lease (Notes 2 and 10)	3,397	10,204	3,591	10,786
Accrued severance indemnities, net (Notes 2 and 21)	24,847	64,029	26,265	67,684
Non-current deferred income tax liabilities, net (Notes 2 and 16)	392,128	409,715	414,512	433,103
Long-term currency swap (Notes 2 and 23)	111,980	73,450	118,372	77,643
Long-term interest rate swap (Notes 2 and 23)	2,747		2,904	
Guarantee deposits received and other (Note 21)	27,181	29,565	28,733	31,252

Total Long-Term Liabilities	3,392,550	3,516,528	3,586,205	3,717,260
Total Liabilities	6,319,923	6,263,796	6,680,680	6,621,349
STOCKHOLDERS EQUITY :				
Capital stock (Notes 1 and 12)	44,639	44,639	47,187	47,187
Capital surplus (Notes 2 and 12)	2,963,880	2,966,198	3,133,066	3,135,516
Retained earnings (Note 13) :				
Appropriated	6,679,235	5,470,701	7,060,502	5,782,982
Before appropriations	886,220	1,799,160	936,808	1,901,860
Capital adjustments :				
Treasury stock (Note 14)	(2,023,624)	(2,047,105)	(2,139,137)	(2,163,959)
Unrealized gains (losses) on valuation of long-term investment securities, net (Notes 2, 3 and 16)	89,739	(42,134)	94,862	(44,539)
Equity in capital adjustments of affiliates, net (Notes 2, 4 and 16)	64,353	77,119	68,025	81,521
Loss on valuation of currency swap, net (Notes 2, 16 and 23)	(21,287)	(14,178)	(22,502)	(14,987)
Loss on valuation of interest rate swap, net (Notes 2, 16 and 23)	(1,991)		(2,105)	
Stock options (Notes 2,15 and 21)	3,246	3,480	3,431	3,679
Total Stockholders Equity	8,684,410	8,257,880	9,180,137	8,729,260
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	₩ 15,004,333	₩ 14,521,676	$ 15,860,817	$ 15,350,609

See accompanying notes to non-consolidated financial statements.

44

Table of Contents

SK TELECOM CO., LTD.
NON-CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(See Independent Accountants Review Report)

	Korean won				Translation into U.S. dollars (Note 2)			
	2006		2005		2006		2005	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
	(In millions)				(In thousands)			
OPERATING REVENUE (Notes 2 and 21)	₩ 2,712,531	₩ 7,891,177	₩ 2,595,485	₩ 7,534,571	$ 2,867,369	$ 8,341,625	$ 2,743,642	$ 7,964,663
OPERATING EXPENSES (Notes 2 and 21)								
Labor cost (Note 21)	(100,339)	(320,169)	(98,112)	(295,684)	(106,067)	(338,445)	(103,712)	(312,562)
Commissions paid	(806,258)	(2,397,787)	(747,222)	(2,176,985)	(852,281)	(2,534,659)	(789,875)	(2,301,253)
Depreciation and amortization (Notes 2, 6, 7 and 10)	(383,545)	(1,057,068)	(379,392)	(1,080,445)	(405,438)	(1,117,408)	(401,049)	(1,142,119)
Network interconnection	(207,954)	(712,292)	(238,966)	(697,319)	(219,825)	(752,951)	(252,607)	(737,124)
Leased line	(99,339)	(296,950)	(98,252)	(290,309)	(105,010)	(313,901)	(103,860)	(306,881)
Advertising	(68,453)	(206,116)	(67,234)	(189,587)	(72,360)	(217,882)	(71,072)	(200,409)
Research and development (Note 2)	(51,539)	(153,294)	(51,772)	(149,236)	(54,481)	(162,044)	(54,727)	(157,755)
Rent	(47,948)	(141,588)	(43,814)	(130,897)	(50,685)	(149,670)	(46,315)	(138,369)
Frequency usage	(40,174)	(118,484)	(38,555)	(116,288)	(42,467)	(125,247)	(40,756)	(122,926)
Repair	(34,844)	(97,785)	(33,671)	(80,175)	(36,833)	(103,367)	(35,593)	(84,752)
Cost of goods sold	(11,666)	(24,286)	(4,323)	(8,678)	(12,332)	(25,672)	(4,570)	(9,173)
Other	(102,352)	(319,848)	(123,239)	(320,183)	(108,193)	(338,106)	(130,274)	(338,459)
Sub-total	(1,954,411)	(5,845,667)	(1,924,552)	(5,535,786)	(2,065,974)	(6,179,352)	(2,034,410)	(5,851,782)

OPERATING INCOME	758,120	2,045,510	670,933	1,998,785	801,395	2,162,273	709,232	2,112,881
OTHER INCOME :								
nterest income (Note 3)	12,917	49,275	12,521	35,830	13,654	52,088	13,236	37,875
Dividends	4,969	20,345	5,076	21,506	5,253	21,506	5,366	22,734
Commissions (Note 21)	9,261	27,220	7,295	23,369	9,790	28,774	7,711	24,703
Equity in earnings of affiliates (Notes 2 and 4)	14,415	47,831	22,318	40,484	15,238	50,561	23,592	42,795
Foreign exchange and ranslation gains (Note 2)	288	2,332	861	1,384	304	2,465	910	1,463
Reversal of llowance for doubtful accounts				428				452
Gain on disposal of nvestment assets	2,494	4,963	176,053	177,010	2,636	5,246	186,103	187,114
Gain on disposal of property, equipment and ntangible assets	302	1,056	140	744	319	1,116	148	786
Gain on ransaction and valuation of currency swap (Notes 2 and 23)	4,930	4,358	1,669	4,314	5,211	4,607	1,764	4,560
Other	13,686	35,930	6,506	26,045	14,468	37,981	6,877	27,533
Sub-total	63,262	193,310	232,439	331,114	66,873	204,344	245,707	350,015

(Continued)

Table of Contents

SK TELECOM CO., LTD.
NON-CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(See Independent Accountants Review Report)

	Korean won				Translation into U.S. dollars (Note 2)			
	2006		2005		2006		2005	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
	(In millions)				(In thousands)			
OTHER EXPENSES :								
Interest and discounts	₩ (61,744)	₩ (178,534)	₩ (59,588)	₩ (191,520)	$ (65,268)	$ (188,725)	$ (62,989)	$ (202,452)
Donations	(20,960)	(42,479)	(13,358)	(31,076)	(22,156)	(44,904)	(14,121)	(32,850)
Foreign exchange and translation losses (Note 2)	(1,197)	(2,637)	(344)	(1,068)	(1,265)	(2,788)	(364)	(1,129)
Loss on transaction and valuation of currency swap (Notes 2 and 23)		(8,553)				(9,041)		
Equity in losses of affiliates (Notes 2 and 4)	(55,762)	(112,054)	(20,326)	(57,524)	(58,945)	(118,450)	(21,486)	(60,808)
Loss on disposal of investment assets	(489)	(3,194)	(1)	(63)	(517)	(3,376)	(1)	(67)
Loss on disposal of property, equipment and intangible assets	(1,385)	(15,019)	(498)	(3,982)	(1,464)	(15,876)	(526)	(4,209)
		(144,021)				(152,242)		

Special severance indemnities (Note 2)								
Other	(33,910)	(81,692)	(19,666)	(57,176)	(35,846)	(86,356)	(20,789)	(60,440)
Sub-total	(175,447)	(588,183)	(113,781)	(342,409)	(185,461)	(621,758)	(120,276)	(361,955)
ORDINARY INCOME	645,935	1,650,637	789,591	1,987,490	682,807	1,744,859	834,663	2,100,941
INCOME BEFORE INCOME TAXES	645,935	1,650,637	789,591	1,987,490	682,807	1,744,859	834,663	2,100,941
PROVISION FOR INCOME TAXES (Notes 2 and 16)	(189,133)	(483,337)	(201,713)	(564,085)	(199,930)	(510,927)	(213,227)	(596,285)
NET INCOME	₩ 456,802	₩ 1,167,300	₩ 587,878	₩ 1,423,405	$ 482,877	$ 1,233,932	$ 621,436	$ 1,504,656
NET INCOME PER SHARE (In Korean won and U.S. dollars) (Note 17)	₩ 6,231	₩ 15,875	₩ 7,986	₩ 19,336	$ 6,587	$ 16,781	$ 8,442	$ 20,440
DILUTED NET INCOME PER SHARE (In Korean won and U.S. dollars) (Note 17)	₩ 6,135	₩ 15,641	₩ 7,849	₩ 19,024	$ 6,485	$ 16,534	$ 8,297	$ 20,110

See accompanying notes to non-consolidated financial statements.

Table of Contents

SK TELECOM CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(See Independent Accountants Review Report)

	Korean won				Translation into U.S. dollars (Note 2)			
	2006		2005		2006		2005	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
	(In millions)				(In thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES :								
Net income	₩ 456,802	₩ 1,167,300	₩ 587,878	₩ 1,423,405	$ 482,877	$ 1,233,932	$ 621,436	$ 1,504,656
Expenses not involving cash payments :								
Provision for severance indemnities	6,866	33,710	10,563	29,137	7,258	35,634	11,166	30,800
Depreciation and amortization	416,780	1,155,994	409,075	1,168,603	440,571	1,221,981	432,426	1,235,310
Allowance for doubtful accounts	17,897	47,479	31,906	66,781	18,919	50,189	33,727	70,593
Foreign translation loss	712	1,237		63	753	1,308		67
Loss on transaction and valuation of currency swap		8,553				9,041		
Equity in losses of affiliates	55,762	112,054	20,326	57,524	58,945	118,450	21,486	60,808
Loss on disposal of investment	489	3,194	1	63	517	3,376	1	67

assets								
Loss on disposal of property, equipment and intangible assets	1,385	15,019	498	3,982	1,464	15,876	526	4,209
Amortization of discounts on bonds and other	12,082	36,513	12,128	37,095	12,771	38,598	12,821	39,212
Sub-total	511,973	1,413,753	484,497	1,363,248	541,198	1,494,453	512,153	1,441,066
Income not involving cash receipts :								
Foreign translation gain	(93)	(312)	(93)	(96)	(98)	(330)	(98)	(101)
Reversal of allowance for doubtful accounts				(428)				(452)
Equity in earnings of affiliates	(14,415)	(47,831)	(22,318)	(40,484)	(15,238)	(50,561)	(23,592)	(42,795)
Gain on disposal of investment assets	(2,494)	(4,963)	(176,053)	(177,010)	(2,636)	(5,246)	(186,103)	(187,114)
Gain on disposal of property, equipment and intangible assets	(302)	(1,056)	(140)	(744)	(319)	(1,116)	(148)	(786)
Gain on transaction and valuation of currency swap	(4,929)	(4,358)	(1,668)	(4,314)	(5,210)	(4,607)	(1,763)	(4,562)
Other		(1,532)				(1,620)		
Sub-total	(22,233)	(60,052)	(200,272)	(223,076)	(23,501)	(63,480)	(211,704)	(235,810)

(Continued)

Table of Contents

SK TELECOM CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(See Independent Accountants Review Report)

	Korean won				Translation into U.S. dollars (Note 2)			
	2006		2005		2006		2005	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
	(In millions)				(In thousands)			
Changes in assets and liabilities related to operating activities :								
Accounts receivable trade	(₩74,179)	(₩3,275)	(₩22,864)	(₩75,558)	($78,413)	($3,462)	($24,169)	($79,871)
Accounts receivable other	(12,775)	9,315	(79,074)	(39,107)	(13,504)	9,847	(83,588)	(41,339)
Inventories	(8,944)	(10,425)	(2,512)	(3,030)	(9,455)	(11,020)	(2,655)	(3,203)
Prepaid expenses	19,361	48,332	3,885	6,529	20,466	51,091	4,107	6,902
Advanced payments and other	1,507	10,895	(2,528)	(25,508)	1,593	11,517	(2,672)	(26,964)
Accounts payable	129,442	73,094	36,047	(380,162)	136,831	77,266	38,105	(401,863)
Income taxes payable	(61,051)	(107,008)	(88,650)	(25,216)	(64,536)	(113,116)	(93,710)	(26,655)
Accrued expenses	(127,816)	(33,909)	58,058	114,689	(135,112)	(35,845)	61,372	121,236
Withholdings	3,392	92,750	(5,955)	54,288	3,586	98,044	(6,295)	57,387
Current portion of subscription deposits	314	893	371	1,202	332	944	392	1,271
Advance receipts and other	4,044	6,989	(28,004)	(16,757)	4,275	7,388	(29,603)	(17,714)
Deferred income taxes	(25,021)	(60,630)	(16,028)	4,347	(26,449)	(64,091)	(16,943)	4,595
Severance indemnity	(869)	(257,989)	(3,402)	(17,937)	(919)	(272,716)	(3,596)	(18,961)

payments								
Deposits for group severance indemnities and other deposits	41	183,685	1,998	9,624	43	194,171	2,112	10,173
Dividends received from affiliate		1,318		600		1,393		634
Sub-total	(152,554)	(45,965)	(148,658)	(391,996)	(161,262)	(48,589)	(157,143)	(414,372)
Net Cash Provided by Operating Activities	793,988	2,475,036	723,445	2,171,581	839,312	2,616,316	764,742	2,295,540

(Continued)

48

Table of Contents

SK TELECOM CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(See Independent Accountants Review Report)

	Korean won				Translation into U.S. dollars (Note 2)			
	2006		2005		2006		2005	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
	(In millions)				(In thousands)			
CASH FLOWS FROM INVESTING ACTIVITIES :								
Cash inflows from investing activities :								
Decrease in short-term financial instruments, net	₩ 62,298	₩	₩	₩	$ 65,854	$	$	$
Decrease in trading securities, net	440,219	262,246			# 465,348	277,216		
Decrease in current portion of long-term investment securities				3,600				3,805
Collection of short-term loans	21,584	80,292	20,009	51,495	22,816	84,875	21,151	54,434
Proceeds from sales of long-term investment securities	190,876	304,621	2,271	3,985	201,772	322,010	2,401	4,212
Proceeds from sales of equity securities accounted for		5,079	290,979	290,979		5,369	307,589	307,589

using the equity method								
Decrease in guarantee deposits	4,227	24,526	7,194	125,021	4,468	25,926	7,605	132,158
Decrease in other non-current assets	1,195	9,970	10,729	26,944	1,263	10,539	11,341	28,483
Proceeds from disposal of property and equipment	469	2,283	488	18,948	496	2,413	516	20,030
Proceeds from disposal of intangible assets	68	124		53	72	131		56
Sub-total	720,936	689,141	331,670	521,025	762,089	728,479	350,603	550,767
Cash outflows for investing activities :								
Increase in short-term financial instruments, net		(48,405)	(7,339)	(24,942)		(51,168)	(7,758)	(26,366)
Increase in trading securities, net			(10,030)	(34,976)			(10,603)	(36,973)
Extension of short-term loans	(22,022)	(73,942)	(8,172)	(52,136)	(23,279)	(78,163)	(8,638)	(55,112)
Acquisition of long-term investment securities	(957,200)	(960,250)		(12,615)	(1,011,839)	(1,015,063)		(13,335)
Acquisition of equity securities accounted for using the equity method	(67,746)	(213,634)	(101,425)	(208,569)	(71,613)	(225,829)	(107,215)	(220,475)
Extension of long-term loans	(4,917)	(7,902)	(852)	(2,397)	(5,198)	(8,353)	(901)	(2,534)
Increase in guarantee	(17,789)	(110,129)	(25,676)	(66,908)	(18,805)	(116,415)	(27,142)	(70,726)

deposits and other non-current assets								
Acquisition of property and equipment	(283,309)	(714,441)	(412,654)	(777,921)	(299,481)	(755,223)	(436,209)	(822,327)
Acquisition of intangible assets	(10,165)	(15,815)	(12,670)	(136,690)	(10,745)	(16,718)	(13,393)	(144,493)
Sub-total	(1,363,148)	(2,144,518)	(578,818)	(1,317,154)	(1,440,960)	(2,266,932)	(611,859)	(1,392,341)
Net Cash Used in Investing Activities	(642,212)	(1,455,377)	(247,148)	(796,129)	(678,871)	(1,538,453)	(261,256)	(841,574)

(Continued)

Table of Contents

SK TELECOM CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(See Independent Accountants Review Report)

	Korean won				Translation into U.S. dollars (Note 2)			
	2006		2005		2006		2005	
	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30	Three months ended September 30	Nine months ended September 30
	(In millions)				(In thousands)			
CASH FLOWS FROM FINANCING ACTIVITIES :								
Cash inflows from financing activities :								
Issuance of bonds	₩ 197,362	₩ 197,362	₩	₩ 193,683	$ 208,628	$ 208,628	$	$ 204,739
Proceeds from long-term borrowings		200,000				211,416		
Increase in guarantee deposits received and other	65	1,241	1,706	22,257	69	1,312	1,803	23,527
Sub-total	197,427	398,603	1,706	215,940	208,697	421,356	1,803	228,266
Cash outflows for financing activities :								
Repayment of short-term borrowings			(300,000)	(200,000)			(317,125)	(211,416)
Repayment of current portion of long-term debt	(3,400)	(10,889)		(500,000)	(3,594)	(11,511)		(528,541)
Repayment of bonds	(350,000)	(350,000)			(369,979)	(369,979)		
Payment of dividends	(73,879)	(662,815)	(73,623)	(758,153)	(78,096)	(700,650)	(77,826)	(801,430)
Decrease in facility deposits	(692)	(2,103)	(1,100)	(6,838)	(732)	(2,223)	(1,163)	(7,228)
	(209,077)	(209,077)			(221,012)	(221,012)		

Acquisition of treasury stock Other	(1,762)	(3,624)	(550)	(17,127)	(1,863)	(3,829)	(581)	(18,105)
Sub-total	(638,810)	(1,238,508)	(375,273)	(1,482,118)	(675,276)	(1,309,204)	(396,695)	(1,566,720)
Net Cash Used in Financing Activities	(441,383)	(839,905)	(373,567)	(1,266,178)	(466,579)	(887,848)	(394,892)	(1,338,454)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(289,607)	179,754	102,730	109,274	(306,138)	190,015	108,594	115,512
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	621,127	151,766	119,510	112,966	656,582	160,429	126,332	119,414
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	₩ 331,520	₩ 331,520	₩ 222,240	₩ 222,240	$ 350,444	$ 350,444	$ 234,926	$ 234,926

See accompanying notes to non-consolidated financial statements.

Table of Contents

SK TELECOM CO., LTD.
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

1. GENERAL

SK Telecom Co., Ltd. (the Company) was incorporated in March 1984 under the laws of the Republic of Korea to engage in providing nationwide cellular telephone communication services in the Republic of Korea. The Company mainly provides wireless telecommunications in the Republic of Korea and recently acquired foreign wireless telecommunications operations in Vietnam, Mongolia and the United States of America. The Company s common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange (formerly Korea Stock Exchange) and the New York and London Stock Exchanges, respectively. As of September 30, 2006, the Company s total issued shares are held by the following:

	Number of shares	Percentage of total shares issued (%)
SK Group	18,748,522	23.09
POSCO Corp.	2,341,569	2.88
Institutional investors and other minority shareholders	51,540,566	63.48
Treasury stock	8,563,054	10.55
	81,193,711	100.00

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the Republic of Korea, using the same accounting policies which were adopted in preparing the annual financial statements. Significant accounting policies followed in preparing the accompanying financial statements are summarized as follows:

a. Basis of Presentation

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

The official accounting records of the Company are maintained and expressed in Korean won, the currency of the country in which the Company is incorporated and operates. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers outside of the Republic of Korea and has been made at the rate of ₩ 946.00 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 nine months ended September 30, 2006. Such translations into U.S. dollars should not be construed as representations that the Korean won amounts could be converted into U.S. dollars at that or any other rate.

Table of Contents

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

On January 1, 2006, the Company adopted SKAS No. 18 through No. 20, which are effective from the fiscal year beginning after December 31, 2005. Such adoption of SKASs did not have an effect on the non-consolidated financial position of the Company as of September 30, 2006 or the non-consolidated ordinary income and net income of the Company for the three months and nine months ended September 30, 2006.

c. Cash Equivalents

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

d. Allowance for Doubtful Accounts

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

e. Inventories

Inventories, which consist mainly of replacement units for wireless telecommunication facilities and supplies for sales promotion, are stated at the lower of cost or market value, with cost determined using the moving average method. The Company maintains perpetual inventory systems, which are adjusted to physical inventory counts performed at fiscal year end. When the market value of inventories is less than the acquisition cost, the carrying amount is reduced to the market value and any difference is charged to current operations as operating expenses. There was no such loss for the three months and nine months ended September 30, 2006 and 2005.

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

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

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

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

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

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

Table of Contents

g. Equity Securities Accounted for Using the Equity Method

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

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

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

h. Property and Equipment

Property and equipment are stated at cost. Major renewals and betterments, which prolong the useful life or enhance the value of assets, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the declining balance method (except for buildings and structures acquired on or after January 1, 1995 which are depreciated using the straight-line method) over the estimated useful lives (4~30 years) of the related assets (See Note 6).

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

Table of Contents

i. Intangible Assets

Intangible assets are recorded at cost, less amortization computed using the straight-line method over 5 to 20 years. The amortization for the nine months ended September 30, 2006 and 2005 were ₩260,627 million and ₩245,212 million, respectively, and for the three months ended September 30, 2006 and 2005 were ₩89,367 million and ₩81,639 million, respectively.

With its application for a license to provide IMT 2000 service, the Company has a commitment to pay ₩1,300,000 million to the Ministry of Information Communication (MIC). 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% (4.08% as of September 30, 2006). The future payment obligations are ₩90,000 million (related present value discount: ₩1,206 million) in 2007, ₩110,000 million in 2008, ₩130,000 million in 2009, ₩150,000 million in 2010 and ₩170,000 million in 2011. On December 4, 2001, SK IMT Co., Ltd. received the IMT 2000 license from MIC, and recorded the total license cost as an intangible asset. As a result of the merger with SK IMT Co., Ltd., the Company acquired such IMT license of ₩1,259,253 million and assumed the related long-term payable with a principal amount of ₩650,000 million on May 1, 2003 (the date of merger). Amortization of the IMT license commenced when the Company started its commercial IMT 2000 service in December 2003, using the straight-line method over the estimated useful life of the IMT license which expires in December 2016. As of September 30, 2006, the present value discount related to the current portion and long-term portion of payments to be made to MIC totaled ₩1,206 million and ₩45,756 million, respectively.

j. Convertible Bonds

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

k. Discounts on Bonds

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

l. 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.

m. Provisions, Contingent Liabilities and Contingent Assets

The Company recognizes a provision when i) it has a present obligation as a result of a past event, ii) it is probable that a disbursement of economic resources will be required to settle the obligation, and iii) a reliable estimate can be made of the amount of the obligation (See Note 22).

Table of Contents

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

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

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

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

n. Accrued Severance Indemnities

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

The Company has deposits with insurance companies to fund the portion of the employees severance indemnities which is in excess of the tax deductible amount allowed under the Corporate Income Tax Law, in order to take advantage of the additional tax deductibility for such funding. Such deposits with outside insurance companies, where the beneficiaries are the Company s employees, totaling ₩3,418 million and ₩187,103 million as of September 30, 2006 and December 31, 2005, respectively, are deducted from accrued severance indemnities.

In accordance with the Korean National Pension Fund Law, the Company transferred a portion of its accrued severance indemnities to the National Pension Fund through March 1999. Such transfers, amounting to ₩54 million and ₩5,172 million as of September 30, 2006 and December 31, 2005, respectively, are deducted from accrued severance indemnities.

Actual payment of severance indemnities amounted to ₩257,989 million and ₩17,937 million for the nine months ended September 30, 2006 and 2005, respectively, and ₩869 million and ₩3,402 million for the three months ended September 30, 2006 and 2005, respectively.

Effective March 31, 2006, the Company changed its policy for the severance indemnities applicable to those employees who joined the Company before or on December 31, 2002 from cumulative method, where employees are entitled to get paid more than one month of salary each year depending on the length of service, to simple multiplier method, where employees are paid one month of salary each year regardless of their service period in accordance with the resolution of the Company s joint labor-management conference held on March 16, 2006. As a result of such policy change, the Company has decided to distribute early settlements to those eligible employees on their accumulated severance indemnities as of March 31, 2006 on a mandatory basis. In addition, the Company paid the additional bonuses of ₩125,890 million for those employees who received the mandatory distribution for their early settlement as compensation for those employees. The Company recorded such compensation costs as special severance indemnities in other expenses for the nine months ended September 30, 2006. In addition, the Company executed the early retirement program and the related special bonus of ₩18,131 million were paid to eligible employees and accounted for as special severance indemnities in other expenses. Such costs are recorded as other expenses for the nine months ended September 30, 2006.

o. Accounting for Employee Stock Option Compensation Plan

Table of Contents

The Company adopted the fair value based method of accounting for its employee stock option compensation plan (See Note 15). Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period. For stock options, fair value is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, expected dividends and the current risk-free interest rate for the expected life of the option. However, as permitted under Korean GAAP, the Company excludes the volatility factor in estimating the value of its stock options granted before December 31, 2003, which results in measurement at minimum value. The total compensation cost of an option estimated at the grant date is not subsequently adjusted for changes in the price of the underlying stock or its volatility, the actual life of the option, dividends on the stock, or the risk-free interest rate. In addition, recognized compensation costs related to stock options expired due to such stock options not being exercised within the exercisable period are transferred to other capital surplus from capital adjustments (See Note 12).

p. Accounting for Leases

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

Assets and liabilities related to capital leases are recorded as property and equipment and obligations under capital leases, respectively, and the related interest is calculated using the effective interest rate method and charged to other expenses. For operating leases, the future minimum lease payments are expensed ratably over the lease term while contingent rentals are expensed as incurred (See Note 10).

q. 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 ₩153,294 million and ₩149,236 million for the nine months ended September 30, 2006 and 2005, respectively, and ₩51,539 million and ₩51,772 million for the three months ended September 30, 2006 and 2005, respectively. In addition, external research and development costs were ₩49,702 million and ₩51,394 million for the nine months ended September 30, 2006 and 2005, respectively, and ₩16,354 million and ₩17,131 million for the three months ended September 30, 2006 and 2005, respectively.

r. Accounting for Foreign Currency Transactions and Translation

Transactions denominated in foreign currencies are recorded in Korean won based on the prevailing rate of exchange at the dates of transactions. Monetary assets and liabilities denominated in foreign currency are translated into Korean won at the Base Rates announced by Seoul Money Brokerage Services, Ltd. on the balance sheet date, which were ₩945.20 and ₩1,013.00 to US$1.00 at September 30, 2006 and December 31, 2005, respectively. The resulting gains or losses arising from the translation or settlement of such assets and liabilities are included in current operations.

s. Derivative Instruments

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

t. Revenue Recognitions

Table of Contents

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

u. Income Tax

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

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognized for all taxable temporary differences with some exceptions and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred income tax assets and liabilities are classified into current and non-current based on the classification of related assets or liabilities for financial reporting purposes (See Note 16).

v. Handset Subsidiaries to Long-term Mobile Subscribers

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

w. Reclassifications

Certain reclassifications have been made in prior period s financial statements to conform to classifications used in the current period. Such reclassifications did not have an effect on the previously reported net assets as of December 31, 2005 and ordinary income and net income for the three months and nine months ended September 30, 2005.

3. INVESTMENT SECURITIES

a. Trading Securities

Trading securities as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

	September 30, 2006			December 31, 2005
	Acquisition cost	Fair value	Carrying amount	Fair value and carrying amount
Beneficiary certificates	₩ 483,114	₩ 483,114	₩ 483,114	₩ 745,360

57

b. Long-term Investment Securities

Long-term investment securities as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

	September 30, 2006	December 31, 2005
Available-for-sale equity securities	₩ 841,446	₩ 907,069
Available-for-sale debt securities	1,013,904	296,264
Total	1,855,350	1,203,333
Less : current portion	(125)	
Long-term portion	₩ 1,855,225	₩ 1,203,333

b-(1). Available-for-sale Equity Securities

Available-for-sale equity securities as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

	Number of shares at September 30, 2006	Percentage (%) at September 30, 2006	Acquisition cost at September 30, 2006	Fair value at September 30, 2006	Carrying amount September 30, 2006	Carrying amount December 30, 2006
(Investments in listed companies)						
Digital Chosunilbo Co., Ltd.	2,890,630	7.8	₩ 5,781	₩ 4,437	₩ 4,437	₩ 5,796
hanarotelecom incorporated.	11,045,000	4.8	121,677	77,204	77,204	56,440
KRTnet Corporation (Formerly Korea Radio Wave Basestation Management)	234,150	4.4	1,171	2,365	2,365	2,646
POSCO	2,481,310	2.8	332,662	607,921	607,921	501,225
Comas Interactive Co., Ltd. (Formerly INNOTG Co., Ltd.)	59,473	0.4	1,695	70	70	83
eXtended Computing Environment Co., Ltd.	133,333	3.3	10	917 (Note a)	917	10
Sub-total			462,996	692,914	692,914	566,200
(Investments in non-listed companies)						
LG Powercomm Co., Ltd. (Formerly Powercomm Co., Ltd.)	7,500,000	5.0	₩ 240,243	₩ 77,130 (Note b)	₩ 77,130	₩ 77,130
Japan MBCO	54,000	7.3	27,332	(Note c)	27,332	27,332
Eonex Technologies Inc.	144,000	12.6	3,600	(Note c)	4,593	4,593
The Korea Economic Daily	2,585,069	13.8	13,964	(Note c)	13,964	13,964
Others			119,313	(Notes c and d)	22,075	22,815

Sub-total	404,452		145,094	145,834
(Investments in funds)				
Korea IT Fund		(Note e)		190,000
Others	3,438	(Note c)	3,438	5,035
Sub-total	3,438		3,438	195,035
Total	₩ 870,886		₩ 841,446	₩ 907,069

Table of Contents

(Note a) Common stocks of extended Computing Environment Co., Ltd. were listed on the Korea Securities Dealers Automated Quotation during the three months ended September 30, 2006.

(Note b) The Company recorded its investments in common stock of LG Powercomm Co., Ltd. at its fair value, which was estimated by an outside professional valuation company using the present value of expected future cash flows and the unrealized loss on valuation of investments amounting to ₩118,257 million (net of tax effect of ₩44,856 million) as of December 31, 2005 was recorded as a capital adjustment. Based on the opinion of the outside professional valuation company, there was no significant change in LG Powercomm Co., Ltd. s operation and financial results, which have an effect on the fair value of the common stocks, for the nine months ended September 30, 2006. No additional unrealized loss or recovery on valuation of such investments was recorded accordingly.

(Note c) As a reasonable estimate of fair value could not be made, the investment is stated at acquisition cost. The investment in common stock of Eonex Technologies Inc. was reclassified to available-for-sale securities from equity securities accounted for using the equity method during 2003, as the Company s ownership in such investees decreased to less than 20% and the Company no longer exercises significant influence. Such securities were transferred to available-for-sale securities at the carrying amount valued using the equity method of accounting prior to the reclassification.

(Note d) Due to the impairment of the Company s investments in common stock of TeleMerc.com, the Company recorded impairment loss on such investments of ₩1,793 million in the 4th quarter of 2005.

(Note e) The investment in Korea IT Fund was reclassified to equity securities accounted for using the equity method during the nine months ended September 30, 2006 as the Company has the ability to exercise significant influence on the investee.

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

Available-for-sale debt securities as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

	Maturity	Acquisition cost as of September 30, 2006	Carrying amount September 30, 2006	Carrying amount December 31, 2005
Public bonds	(Note a)	₩ 1,888	₩ 1,888	₩ 1,590
Currency stabilization bonds	(Note b)			294,674
Convertible bonds of Real Telecom Co., Ltd. (Note c)	March, 2007	10,656		
Convertible bonds of China Unicom Ltd. (Note d)	July, 2009	957,055	1,012,016	
Total		969,599	1,013,904	296,264
Less current portion		(125)	(125)	
Long-term available-for-sale debt securities		₩ 969,474	₩ 1,013,779	₩ 296,264

The interest income incurred from available-for-sale debt securities for the nine months ended September 30, 2006 and 2005 were ₩6,904 million and ₩ 645 million, respectively, and for the three months ended September 30, 2006 and 2005 were ₩ 18 million and ₩ 15 million, respectively.

Table of Contents

(Note a) The maturities of public bonds as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

Maturity	September 30, 2006	December 31, 2005
Within one year	₩ 125	₩
After one year but within five years	1,763	1,229
After five years but within ten years		361
	₩ 1,888	₩ 1,590

(Note b) The maturities of currency stabilization bonds as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

Maturity	September 30, 2006	December 31, 2005
After one year but wthin five years	₩	₩ 294,674

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

(Note d) On July 5, 2006, the Company purchased zero coupon convertible bonds of China Unicom Ltd. with maturity of three years and principal amount of US$1,000,000,000 for US$1,000,000,000. Such convertible bonds have initial conversion price of US$1.111426 per share of common stock of China Unicom Ltd. The bond holders may redeem their notes at 102.82% of the principal amount on July 5, 2008 (2 years from the issuance date). The conversion right may be exercised during the period from July 5, 2007 to June 29, 2009 and the number of common shares to be converted as of September 30, 2006 is 899,745,075 shares. Unless either previously redeemed or converted, the notes are redeemable at 104.26% of the principal amount at maturity. The Company recorded the convertible bonds of China Unicom Ltd. at its fair value, which was estimated by an outside professional valuation company using Cox, Ross & Rubinstein Model (1979) and discount rate of 5.9138%.

Table of Contents

b-(3). Changes in Unrealized Gains (Losses) on Investments in Common Stock

The changes in unrealized gains (losses) on investments in available-for-sales securities for the nine months ended September 30, 2006 and 2005 are as follows (In millions of Korean won):

	For the nine months ended September 30, 2006			
	Beginning balance	Increase/ (decrease)	Transferred to realized gain (loss)	Ending balance
Available-for-sales equity securities:				
Digital Chosunilbo Co., Ltd.	₩ 14	₩ (1,358)	₩	₩ (1,344)
hanarotelecom incorporated	(65,237)	20,764		(44,473)
KRTnet Corporation	1,475	(281)		1,194
POSCO	168,563	106,696		275,259
Comas Interactive Co., Ltd.	(1,611)	(13)		(1,624)
eXtended Computing Environment Co., Ltd.		907		907
LG Powercomm Co., Ltd.	(163,113)			(163,113)
Eonex Technologies Inc.	2,011			2,011
Currency stabilization bonds	(218)	895	(677)	
Convertible bonds of China Unicom Ltd.		54,961		54,961
Sub-total	(58,116)	182,571	(677)	123,778
Less tax effect	15,982	(50,207)	186	(34,039)
Total	₩ (42,134)	₩ 132,364	₩ (491)	₩ 89,739

	For the nine months ended September 30, 2005			
	Beginning balance	Increase/ (decrease)	Transferred to realized gain (loss)	Ending balance
Available-for-sales equity securities:				
Digital Chosunilbo Co., Ltd.	₩ (3,758)	₩ 1,532	₩	₩ (2,226)
hanarotelecom incorporated	(50,657)	(10,382)		(61,039)
KRTnet Corporation	1,007	73		1,080
POSCO	131,343	116,621		247,964
Comas Interactive Co., Ltd.	(1,543)	(100)		(1,643)
SINJISOFT Corporation	460		(460)	
Cowon System, Inc.		491		491
LG Powercomm Co., Ltd.	(168,678)			(168,678)
Eonex Technologies Inc.	2,011			2,011
WiderThan Co., Ltd.	(27)			(27)
Sub-total	(89,842)	108,235	(460)	17,933
Less tax effect		(4,932)		(4,932)

Total	₩ (89,842)	₩ 103,303	₩ (460)	₩ 13,001

Table of Contents

4. EQUITY SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD

Equity securities accounted for using the equity method of accounting as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

	September 30, 2006				Carrying Amount	
	Number of shares	Ownership percentage (%)	Acquisition cost	Net asset value	September 30, 2006	December 31,2005
Pantech Co., Ltd.	25,570,306	22.7	₩ 26,309	₩ 44,438	₩ 44,929	₩ 55,634
SK Capital Co., Ltd.	10,000,000	100.0	50,000	37,506	37,506	37,501
SK Communications Co., Ltd.	7,844,454	86.4	175,441	153,564	173,208	158,170
SK Telink Co., Ltd.	943,997	90.8	5,296	82,629	82,629	70,863
SK C&C Co., Ltd.	300,000	30.0	19,071	213,799	218,365	198,251
SK Wyverns Baseball Club Co., Ltd.	199,997	100.0	1,000			
STIC Ventures Co., Ltd.	1,600,000	21.9	8,000	8,379	8,379	8,308
Paxnet Co., Ltd.	5,590,452	65.9	26,563	11,373	28,805	27,372
Global Credit & Information Co., Ltd.	300,000	50.0	2,410	2,649	3,245	3,276
TU Media Corp.	12,922,266	29.6	64,611	12,252	13,088	32,393
Aircross Co., Ltd.	600,000	38.1	300	966	966	970
WiderThan Co., Ltd.	2,000,000	10.1	1,000	11,503 (Note a)	11,503	12,827
IHQ, Inc.	13,000,000	34.3	41,793	14,739	40,846	13,935
Seoul Records, Inc.	9,582,321	60.0	27,874	23,345	26,403	27,242
Harex Info Tech, Inc.	225,000	21.2	3,375	1,128	2,267	2,568
SK Mobile		42.5	10,322	6,217 (Note b)	9,090	
SLD Telecom PTE. Ltd.	180,476,700	73.3	191,273	125,778	126,168	55,358
Skytel Co., Ltd.	1,756,400	28.6	2,159	4,852	4,852	4,872
SK China Company Ltd.	28,160	20.7	3,195	1,571	485	483
SK Telecom China Co., Ltd.	6,150,000	100.0	7,340	6,564	6,564	6,927
ULand Company Ltd.	14,100,100	70.1	17,511	4,057	8,623	12,564
SK Telecom USA Holdings, Inc.	1,000	100.0	198,713	113,997 (Note c)	113,997	103,751
SK Telecom International, Inc.	1,099	100.0	17,467	24,978	24,978	25,957
SK USA, Inc.	49	49.0	3,184	3,352	3,352	3,353
Korea IT Fund		63.3	190,000	195,569 (Note d)	195,569	
Centurion IT Investment Association		37.5	3,000	3,076	3,076	3,635
1st Music Investment Fund of SK-PVC		69.3	6,925	6,995	6,995	6,990
2nd Music Investment Fund of		79.3	7,925	7,966	7,966	7,966

SK-PVC						
SK-KTB Music Investment Fund	74.3	14,850	15,248		15,248	14,999
IMM Cinema Fund	48.4	12,000	11,944		11,944	11,884
SKT-HP Ventures, LLC.						5,272
Other investments in affiliates		16,257		(Note e)	15,757	12,583
Total		₩ 1,155,164			₩ 1,246,803	₩ 925,904

62

Table of Contents

(Note a) Effective January 1, 2005, the investment in common stock of WiderThan Co., Ltd. was reclassified to equity securities accounted for using the equity method. Although the Company s ownership in WiderThan Co., Ltd. is less than 20%, the Company exercises significant influences on the selection of directors and the investee has significant transactions with the Company.

(Note b) On March 31 2006, the Company acquired 42.5% interests of common stock of SK Mobile from Pantech Co., Ltd. and others.

(Note c) In 2005, the Company incorporated SK Telecom USA Holdings, Inc. with an investment of US$122 million in order to invest in and manage Helio, Inc., a joint venture company in the Untied States of America, which was established in order to provide wireless telecommunication services in the United States of America. In addition, the Company invested an additional US$78.5 million in SK USA Holdings, Inc. for the nine months ended September 30, 2006 (See Note 24).

(Note d) The investment in Korea IT Fund was reclassified to equity securities accounted for using the equity method for the nine months ended September 30, 2006 as the Company has ability to exercise significant influence on the investee.

(Note e) As allowed under Korean GAAP, investments in equity securities of SK Telecom Europe Limited and others were not accounted for using the equity method of accounting, as changes in the Company s portion of stockholders equity of such investees were not expected to be material.

Table of Contents

Details of the changes in investments in affiliates accounted for using the equity method for the three months and nine months ended September 30, 2006 and 2005 are as follows (In millions of Korean won):

		For the nine months ended September 30, 2006						
		Beginning balance	Acquisition	Equity in earnings (losses)	Equity in capital surplus and capital adjustments	Dividend received	Other increase (decrease)	Ending balance
Pantech Co., Ltd.	(Note a)	₩ 55,634	₩	₩ (12,654)	₩ 1,949	₩	₩	₩ 44,929
SK Capital Co., Ltd.	(Note b)	37,501		5				37,506
SK Communications Co., Ltd	(Note a)	158,170		13,079	1,959			173,208
SK Telink Co., Ltd.	(Note a)	70,863		11,729	37			82,629
SK C&C Co., Ltd.	(Notes a and c)	198,251		17,234	3,870	(990)		218,365
SK Wyverns Baseball Club Co., Ltd.	(Note b)							
STIC Ventures Co., Ltd.	(Note b)	8,308		71				8,379
Paxnet Co., Ltd.	(Note a)	27,372		1,178	255			28,805
Global Credit & Information Co., Ltd.	(Note b)	3,276		(31)				3,245
TU Media Corp.	(Note a)	32,393		(19,305)				13,088
Aircross Co., Ltd.	(Note b)	970		(4)				966
WiderThan Co., Ltd.	(Notes b and d)	12,827		(500)	(54)		(770)	11,503
IHQ, Inc.	(Notes a and d)	13,935	27,352	(2,332)	793		1,098	40,846
Seoul Records, Inc.	(Note a)	27,242		(839)				26,403
Harex Info Tech, Inc.	(Note b)	2,568		(301)				2,267
SK Mobile			10,322	(1,117)	(115)			9,090

	(Note a)							
SLD Telecom PTE Ltd.	(Note a)	55,358	97,285	(11,816)	(14,659)			126,168
Skytel Co., Ltd.	(Notes b and c)	4,872		111	197	(328)		4,852
SK China Company Ltd.	(Note b)	483		2				485
SK Telecom China Co., Ltd.	(Note a)	6,927		(301)	(62)			6,564
ULand Company Limited.	(Note a)	12,564		(4,967)	1,026			8,623
SK Telecom USA Holdings, inc.	(Note a)	103,751	75,499	(57,197)	(8,056)			113,997
SK Telecom International, Inc.	(Note a)	25,957		695	(1,674)			24,978
SK USA, Inc.	(Note b)	3,353		(75)	74			3,352
Korea IT Fund	(Notes a and e)			3,395	2,174		190,000	195,569
Centurion IT Investment Association	(Note b)	3,635		(615)	56			3,076
1st Music Investment Fund of SK-PVC	(Note b)	6,990		5				6,995
2nd Music Investment Fund of SK-PVC	(Note b)	7,966						7,966
SK-KTB Music Investment Fund	(Note a)	14,999		249				15,248
IMM Cinema Fund	(Note a)	11,884		60				11,944
SKT-HP Ventures, LLC	(Note f)	5,272		18			(5,290)	
Total		₩913,321	210,458	(64,223)	(12,230)	(1,318)	185,038	₩1,231,046
Less six months ended June 30, 2006			145,888	(22,876)	(13,852)	(1,318)	(597)	
Three months ended September 30, 2006			₩ 64,570	₩(41,347)	₩ 1,622	₩ ( )	₩185,635	

Table of Contents

(Note a) Investments were recorded using the equity method of accounting based on unaudited and unreviewed financial statements as of and for the nine months ended September 30, 2006 In order to verify the reliability of such unaudited and unreviewed financial statements, the Company has performed the following procedures and found no significant errors:

i) obtained the signature from the chief executive officer of the equity method investee asserting that the unaudited and unreviewed financial statements are accurate

ii) checked whether the major transactions identified by the Company, including public disclosures, were appropriately reflected in the unaudited and unreviewed financial statements

iii) performed an analytical review on the unaudited and unreviewed financial statements

(Note b) Investments in equity securities are carried using the equity method of accounting based on the financial statements as of December 31, 2005 as information as of September 30, 2006 was not available and the change in the Company s portion of stockholders equity of the investee for the nine months ended September 30, 2006 was immaterial.

(Note c) The Company received dividends from SK C&C Co., Ltd. and Skytel Co., Ltd. and the corresponding amount was deducted from the carrying amount of equity method securities.

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

(Note e) Other increase in investments in Korea IT Fund is the carrying amount transferred from available-for-sale equity securities.

(Note f) Investment was fully liquidated due to dissolution of SKT-HP Ventures, LLC for the nine months ended September 30, 2006.

Table of Contents

		For the nine months ended September 30, 2005						
		Beginning balance	Acquisition	Equity in earnings (losses)	Equity in capital surplus and capital adjustments	Dividend received	Other increase (decrease)	Ending balance
SKY Teletech Co., Ltd.		₩ 190,896	₩	₩ (15,338)	₩ 108	₩	₩ (115,478)	₩ 60,188
SK Capital Co., Ltd.	(Note a)	34,891						34,891
SK Communications Co., Ltd		143,096		8,494	(797)			150,793
SK Telink Co., Ltd.		56,182		13,228	32			69,442
SK C&C Co., Ltd.		201,353		13,359	16,468	(600)		230,580
SK Wyverns Baseball Club Co., Ltd.				(3,904)				
STIC Ventures Co., Ltd.	(Note a)	7,321		(284)	441			7,478
Paxnet Co., Ltd.		25,244		1,510				26,754
Global Credit & Information Co., Ltd.	(Note a)	3,054		(31)				3,023
TU Media Corp.		34,607		(18,788)	(4)			15,815
Aircross Co., Ltd.	(Note a)	944		(4)				940
IHQ, Inc.			14,440	166	(10)			14,596
Seoul Records, Inc.			27,874	209				28,083
SLD Telecom PTE Ltd.		59,804		(5,235)	(442)			54,127
Skytel Co., Ltd.	(Note a)	3,633		88	(8)			3,713
SK China Company Ltd.	(Note a)	803		35	(8)			830
SK Telecom China Co., Ltd.	(Note a)	9,212		178	(178)			9,212
ULand Company Limited			17,511	(3,128)	2,098			16,481
SK Telecom USA Holdings, Inc.			123,214	(10,535)	3,235			115,914
SK Telecom International, Inc.	(Note a)	21,995		3,048	(62)			24,981
SK USA, Inc.	(Note a)	3,184		168	(297)			3,055

Centurion IT Investment Association	(Note a)	3,205		(277)				2,928
SKT-QC Wireless Development Fund	(Note a)	5,145		1				5,146
SKT-HP Ventures, LLC	(Note a)	5,284			(3)			5,281
Total		₩ 809,853	183,039	(17,040)	20,573	(600)	(115,478)	₩ 884,251
Less six months ended June 30, 2005			97,878	(19,031)	(10,158)	(600)		
Three months ended September 30, 2005			₩ 85,161	₩ 1,991	₩ 30,731	₩	₩ (115,478)	

(Note a) Investments in equity securities are carried using the equity method of accounting based on the financial statements as of December 31, 2004 as information as of September 30, 2005 was not available and the change of the Company s portion of shareholders equity of the investee for the nine months ended September 30, 2005 was not expected to be material.

Details of changes in the differences between the acquisition cost and net asset value of equity method investees at the acquisition date for the three months and nine months ended September 30, 2006 and 2005 are as follows (In millions of Korean won):

	For the nine months ended September 30, 2006			
	Beginning balance	Increase	Amortization	Ending balance
Pantech Co., Ltd.	₩ 793	₩	₩ (32)	₩ 761
SK Communications Co., Ltd.	23,814		(1,048)	22,766
SK C&C Co., Ltd.	4,870		(304)	4,566
Paxnet Co., Ltd.	18,237		(805)	17,432
Global Credit & Information Co., Ltd.	628		(31)	597
TU Media Corp.	993		(157)	836
IHQ, Inc.	6,267	21,948	(2,108)	26,107
Seoul Records, Inc.	3,670		(612)	3,058
Harex Info Tech, Inc.	1,402		(263)	1,139
SK Mobile		3,192	(319)	2,873
SLD Telecom PTE. Ltd.	406		(16)	390
ULand Company Ltd.	3,628	1,131	(193)	4,566
Total	₩ 64,708	26,271	(5,888)	₩ 85,091
Less six months ended June 30, 2006		4,252	(3,201)	
Three months ended September 30, 2006		₩ 22,019	(₩ 2,687)	

	For the nine months ended September 30, 2005			
	Beginning balance	Increase	Amortization	Ending balance
Pantech Co., Ltd.	₩ 3,287	₩ (2,155)	₩ (100)	₩ 1,032
SK Communications Co., Ltd.	24,622		(459)	24,163
SK C&C Co., Ltd.	5,276		(304)	4,972
Paxnet Co., Ltd.	19,310		(805)	18,505
Global Credit & Information Co., Ltd.	670		(31)	639
IHQ, Inc.		7,401	(185)	7,216
Seoul Records, Inc.		4,078	(51)	4,027
SLD Telecom PTE. Ltd.	428		(17)	411
ULand Company Ltd.		3,922	(245)	3,677
Total	₩ 53,593	13,246	(2,197)	₩ 64,642
Less six months ended June 30, 2005		7,401	(1,169)	
Three months ended September 30, 2005		₩ 5,845	₩ (1,028)	

Table of Contents

Details of changes in unrealized inter-company gains incurred from sales of assets for the three months and nine months ended September 30, 2006 and 2005 are as follows (In millions of Korean won):

	For the nine months ended September 30, 2006			
Subsidiary	Beginning balance	Increase	Decrease	Ending balance
Pantech Co., Ltd.	₩	₩ 270	₩	₩ 270
SK Communications Co., Ltd.	4,016		(894)	3,122
SK China Company Ltd.	1,086			1,086
Total	₩ 5,102	270	(894)	₩ 4,478
Less: six months ended June 30, 2006		270	(686)	
Three months ended September 30, 2006		₩	₩ (208)	

	For the nine months ended September 30, 2005			
Subsidiary	Beginning balance	Increase	Decrease	Ending balance
SK Communications Co., Ltd.	₩	₩ 3,688	₩	₩ 3,688
SK China Company Ltd.	1,206		(120)	1,086
Total	₩ 1,206	3,688	(120)	₩ 4,774
Less: six months ended June 30, 2005		3,688	(120)	
Three months ended September 30, 2005		₩	₩	

Details of market price of the equity securities accounted for using the equity method as of September 30, 2006 are as follows (In millions of Korean won, except for market price per share):

	Market price per share (In Korean won)	Number of shares owned by the Company	Market price
Pantech Co., Ltd.	₩ 5,500	25,570,306	₩ 140,637
WiderThan Co., Ltd.	15,832	2,000,000	31,664
IHQ, Inc.	7,800	13,000,000	101,400
Seoul Records, Inc.	3,870	9,582,321	37,084

The condensed financial information of the investees as of and for the nine months ended September 30, 2006 is as follows (In millions of Korean won):

	Total assets	Total liabilities	Revenue	Net income (loss)
Pantech Co., Ltd.	₩1,121,241	₩927,201	₩1,001,528	₩(55,161)
SK Communications Co., Ltd.	243,204	57,108	132,364	17,780
SK Telink Co., Ltd.	136,491	45,844	141,993	14,324
SK C&C Co., Ltd.	1,661,359	948,694	681,075	58,578
Paxnet Co., Ltd.	22,305	4,445	23,591	2,956
TU Media Corp.	355,953	314,536	60,080	(64,561)
IHQ, Inc.	71,675	26,644	37,401	(2,775)
Seoul Records, Inc.	46,182	7,273	19,820	(355)
SK Mobile	16,301	1,674	796	(2,814)
SLD Telecom PTE Ltd.	228,689	57,141		(14,999)
SK Telecom China Co., Ltd.	6,843	279	11,450	(23)
ULand Company Limited	7,640	1,856	5,285	(6,301)
SK Telecom USA Holdings, Inc.	154,079	40,081		(56,572)
SK Telecom International, Inc.	26,301	1,324	9,279	1,196
Korea IT Fund	308,794		14,494	3,043
SKT-KTB Music Investment Fund	20,637	81	445	341
IMM Cinema Fund	24,685	2	336	122

5. LOANS TO EMPLOYEES

Short-term and long-term loans to employees as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

	September 30, 2006			December 31, 2005
	Short-term	Long-term	Total	
Loans to employees stock ownership association	₩ 2,327	₩ 6,271	₩ 8,598	₩ 14,586
Loans to employees for housing and other	78	221	299	433
Total	₩ 2,405	₩ 6,492	₩ 8,897	₩ 15,019

6. PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

	Useful lives (years)	September 30, 2006	December 31, 2005
Land		₩ 462,587	₩ 461,513
Buildings and structures	30,15	1,480,719	1,477,838
Machinery	6	10,748,336	10,376,529
Vehicles	4	20,669	20,442
Other	4	833,281	807,534
Construction in progress		396,038	264,309

		13,941,630		13,408,165
Less accumulated depreciation		(9,569,732)		(8,812,282)
Property and equipment, net	₩	4,371,898	₩	4,595,883

The standard value of land declared by the government as of September 30, 2006 and December 31, 2005 are ₩504,069 million and ₩412,829 million, respectively.

Details of change in property and equipment for the three months and nine months ended September 30,

69

Table of Contents

2006 and 2005 are as follows (In millions of Korean won):

	For the nine months ended September 30, 2006					
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	₩ 461,513	₩ 7	₩ (344)	₩ 1,411	₩	₩ 462,587
Buildings and structures	1,145,497	1,969	(607)	1,755	(41,596)	1,107,018
Machinery	2,429,564	8,755	(1,704)	487,220	(791,570)	2,132,265
Vehicles	2,786	994	(113)		(1,286)	2,381
Other	292,214	423,457	(13,548)	(369,599)	(60,915)	271,609
Construction in progress	264,309	279,259		(147,530)		396,038
Total	₩ 4,595,883	714,441	(16,316)	(26,743)	(895,367)	₩ 4,371,898
Less six months ended June 30, 2006		431,132	(14,730)	(15,896)	(567,954)	
Three months ended September 30, 2006		₩ 283,309	₩ (1,586)	₩ (10,847)	₩ (327,413)	

	For the nine months ended September 30, 2005					
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	₩ 463,656	₩ 719	₩ (504)	₩ 1,503	₩	₩ 465,374
Buildings and structures	1,163,070	7,663	(782)	18,531	(41,216)	1,147,266
Machinery	2,585,118	13,697	(17,901)	368,028	(820,928)	2,128,014
Vehicles	4,030	753	(116)	70	(1,626)	3,111
Other	251,377	500,868	(2,718)	(267,494)	(59,621)	422,412
Construction in progress	138,002	254,221		(149,255)		242,968
Total	₩ 4,605,253	777,921	(22,021)	(28,617)	(923,391)	₩ 4,409,145
Less six months ended June 30, 2005		365,267	(21,189)	(19,972)	(595,955)	
Three months ended September 30, 2005		₩ 412,654	₩ (832)	₩ (8,645)	₩ (327,436)	

7. INTANGIBLE ASSETS

Intangible assets as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

	September, 2006			December 31, 2005		
	Acquisition	Accumulated	Carrying	Acquisition	Accumulated	Carrying

	cost	amortization	amounts	cost	amortization	amounts
Goodwill	₩ 2,335,532	₩ (611,144)	₩ 1,724,388	₩ 2,335,532	₩ (514,648)	₩ 1,820,884
Frequency use rights	1,384,433	(279,115)	1,105,318	1,384,433	(200,141)	1,184,292
Software development costs	229,121	(183,559)	45,562	221,913	(160,657)	61,256
Computer software	521,966	(267,670)	254,296	489,807	(210,050)	279,757
Other	107,717	(67,928)	39,789	103,974	(63,616)	40,358
	₩ 4,578,769	₩ (1,409,416)	₩ 3,169,353	₩ 4,535,659	₩ (1,149,112)	₩ 3,386,547

Table of Contents

Details of changes in intangible assets for the three months and nine months ended September 30, 2006 and 2005 are as follows (In millions of Korean won):

	For the nine months ended September 30, 2006					
	Beginning balance	Increase	Decrease	Transfer	Amortization	Ending balance
Goodwill	₩ 1,820,884	₩	₩	₩	₩ (96,496)	₩ 1,724,388
Frequency use rights	1,184,292				(78,974)	1,105,318
Software development costs	61,256			7,208	(22,902)	45,562
Computer software	279,757	12,019	(1)	20,189	(57,668)	254,296
Other	40,358	3,796	(53)	275	(4,587)	39,789
Total	₩ 3,386,547	15,815	(54)	27,672	(260,627)	₩ 3,169,353
Less six months ended June 30, 2006		5,650	(20)	17,053	(171,260)	
Three months ended September 30, 2006		₩ 10,165	₩ (34)	₩ 10,619	₩ (89,367)	

	For the nine months ended September 30, 2005					
	Beginning balance	Increase	Decrease	Transfer	Amortization	Ending balance
Goodwill	₩ 1,949,546	₩	₩	₩	(₩96,496)	₩ 1,853,050
Frequency use rights	1,163,319	117,380			(72,305)	1,208,394
Software development costs	100,579	35			(31,023)	69,591
Computer software	190,744	17,804	(3)	29,364	(39,735)	198,174
Other	44,431	1,471	(214)	600	(5,653)	40,635
Total	₩ 3,448,619	136,690	(217)	29,964	(245,212)	₩ 3,369,844
Less six months ended June 30, 2005		124,020	(203)	20,763	(163,573)	
Three months ended September 30, 2005		₩ 12,670	₩ (14)	₩ 9,201	₩ (81,639)	

The book value as of September 30, 2006 and residual useful lives of major intangible assets are as follows (In millions of Korean won):

	Amount	Description	Residual useful lives
Goodwill	₩1,724,388	Goodwill related to acquisition of Shinsegi Telecomm, Inc.	13 years and 6 months
IMT license	988,094		(Note a)

		Frequency use rights relating to W-CDMA Service	
WiBro license	110,331	WiBro Service	(Note b)
DMB license	6,893	DMB Service	9 years and 9 months

71

Table of Contents

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

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

8. BONDS PAYABLE AND LONG-TERM BORROWINGS

a. Bonds payable

Bonds payable as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won and thousands of U.S. dollars):

	Maturity year	Annual interest rate (%)	September 30, 2006	December 31, 2005
Domestic general bonds	2006	5.0 6.0	₩ 450,000	₩ 800,000
	2007	5.0 6.0	700,000	700,000
	2008	5.0	300,000	300,000
	2009	5.0	300,000	300,000
	2010	4.0	200,000	200,000
	2011	3.0	200,000	200,000
	2016	5.0	200,000	
Dollar denominated bonds (US$300,000)	2011	4.25	283,560	303,900
Convertible bonds (US$311,030)	2009		364,309	385,885
Total			2,997,869	3,189,785
Less discounts on bonds			(30,185)	(40,016)
conversion right adjustments			(48,973)	(65,219)
Add long-term accrued interest			23,421	24,808
Net			2,942,132	3,109,358
Less portion due within one year			(847,772)	(795,150)
Long-term portion			₩ 2,094,360	₩ 2,314,208

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

On May 27, 2004, the Company issued zero coupon convertible bonds with a maturity of five years in the principal amount of US$329,450,000 for US$324,923,469, with an initial conversion price of ₩235,625 per share of the Company s common stock, which was greater than market value at the date of issuance. Subsequently, the initial conversion price was changed to ₩217,062 per share in accordance with anti-dilution protection. The Company may redeem their principal amount after 3 years from the issuance date if the market price exceeds 130% of the conversion price during a predetermined period. On the other hand, the bond holders may redeem their notes at 103.81% of the principal amount on May 27, 2007 (3 years from the issuance date). The conversion right may be exercised during the period from July 7, 2004 to May 13, 2009 and the number of common shares to be converted as of September 30, 2006 is 1,685,816 shares. During the nine months ended September 30, 2006, the conversion price was changed from ₩218,098 to ₩217,062 and the number of shares to be converted was changed from 1,677,812 shares to 1,685,816 shares due to the payment of interim dividends in accordance with the resolution of the Company s board of directors dated July 28, 2006.

Conversion of notes to common shares may be prohibited under the Telecommunications Law or other legal restrictions which restrains foreign governments, individuals and entities from owning more than 49% of the Company s voting stock, if this 49% ownership limitation is violated due to the exercise of conversion rights. In this case, the Company will pay a bond holder a cash settlement determined at the average price of one day after a holder exercises its conversion right or the weighted average price for the following five business days. The Company intends to sell treasury shares held in trust by the Company that corresponds to the number of shares of common stock that would have been delivered in the absence of the 49% foreign shareholding restrictions. The Company entered into an agreement with Credit Suisse First Boston International to reduce the effect of fluctuation with respect to cash settlement payments that may be more or less than the proceeds from sales of treasury shares held in trust. Unless either previously redeemed or converted, the notes are redeemable at 106.43% of the principal amount at maturity.

During the nine months ended September 30, 2006, the convertible bonds with a principal amount of US$18,420,000 were converted into 99,361 shares of treasury stock (See note 14), and the principal amount of the convertible bonds decreased from US$329,450,000 to US$311,030,000. In addition, the consideration for conversion right (capital surplus) decreased by ₩2,728 million (net of tax effect of ₩1,034 million) as a result of this conversion.

b. Long-term borrowings

Long-term borrowings as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won and thousands of U.S. dollars):

	Lender	Final maturity year	Annual interest rate (%) (Note)	September 30, 2006	December 31, 2005
Long-term floating rate discount bill	Shinhan Bank	June 29, 2011	91 days CD yield + 0.25%	₩200,000	₩

The above borrowings are classified as long-term borrowings as the borrowings are to be rolled-over exceeding 1 year from September 30, 2006 in accordance with the loan agreement.

(Note) 91 days CD yield as of September 30, 2006 is 4.6%.

9. 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.

Table of Contents

Long-term subscription deposits held as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won except deposit per subscriber amounts):

Service type	Deposit per subscriber	September 30, 2006	December 31, 2005
Cellular	₩ 200,000	₩ 21,666	₩ 23,770

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

10. LEASES

The Company acquired certain computer equipment and software from SK C&C Co., Ltd. and succeeded certain capital lease agreements between SK C&C Co., Ltd. and HP Financial Service. Details of capital lease assets acquired and liabilities assumed from SK C&C Co., Ltd. as of and for the nine months ended September 30, 2006 and as of and for the year ended December 31, 2005 are as follows (In millions of Korean won):

		September 30, 2006	December 31, 2005
Acquisition cost	Office equipment	₩ 16,096	₩ 16,919
	Computer software	7,609	7,625
		₩ 23,705	₩ 24,544
Accumulated depreciation	Office equipment	₩ 6,802	₩ 744
	Computer software	1,268	127
		₩ 8,070	₩ 871
Carrying amounts	Office equipment	₩ 9,294	₩ 16,175
	Computer software	6,341	7,498
		₩ 15,635	₩ 23,673
Depreciation expenses	Office equipment	₩ 6,197	₩ 744
	Computer software	1,142	127
		₩ 7,339	₩ 871

The Company s minimum future lease payments as of September 30, 2006 are as follows (In millions of Korean won):

	Annual lease payments	Interest	Principal
October 2006 ~ September 2007	₩ 10,758	(₩501)	₩ 10,257
October 2007 ~ September 2008	3,467	(70)	3,397
Total	₩ 14,225	(₩571)	13,654
Less: portion due within one year			(10,257)
Capital lease liabilities			₩ 3,397

74

Table of Contents

11. MONETARY ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The details of monetary assets and liabilities denominated in foreign currencies (except for bonds payable denominated in foreign currencies described in Note 8) as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won, thousands of U.S. dollars, thousands of HK dollars, thousands of Japanese yen, thousands of Great Britain pounds, thousands of Singapore dollars, thousands of Swiss Franc and thousands of Euros, thousands of Chinese yuan, thousands of Canada dollars):

	September 30, 2006				December 31, 2005			
	Foreign currencies		Korean won equivalent		Foreign currencies		Korean won equivalent	
Cash and cash equivalents	US$	1,179	₩	1,115	US$	4,175	₩	4,229
					EUR	3		3
Accounts receivable trade	US$	18,242		17,242	US$	9,390		9,512
	EUR	248		298	EUR	248		298
Accounts receivable other	US$	4,113		3,888	US$	3,364		3,408
Guarantee deposits	US$	17		16	JPY	16,156		139
	JPY	21,536		173				
			₩	22,732			₩	17,589
Accounts payable	US$	12,188	₩	11,520	US$	15,633	₩	15,836
	JPY	32,758		263	JPY	8,498		73
	HK$	136		16	HK	254		33
	GBP	58		102	GBP	453		792
	SG$	12		7	SG$	22		13
	EUR	580		696	EUR	504		604
	CNY	2		1	CHF	19		15
	CA$	354		301				
			₩	12,906			₩	17,366

12. CAPITAL STOCK AND CAPITAL SURPLUS

The Company s capital stock consists entirely of common stock with a par value of ₩500. The number of authorized and issued shares as of September 30, 2006 and December 31, 2005 are as follows:

	September 30, 2006	December 31, 2005
Authorized shares	220,000,000	220,000,000
Issued shares	81,193,711	82,276,711
Outstanding shares, net of treasury stock	72,630,657	73,614,296

75

Table of Contents

Significant change in capital stock and capital surplus for the nine months ended September 30, 2006 and for the year ended December 31, 2005 are as follows (In millions of Korean won except for share data):

	Number of shares Issued	Capital stock	Capital surplus
At January 1, 2005	82,276,711	₩ 44,639	₩ 2,983,166
Deferred tax liabilities deducted from capital surplus (Note a)			(18,501)
Transferred from stock options in capital adjustment (Note b)			1,533
At December 31, 2005	82,276,711	44,639	2,966,198
Consideration for conversion right (Note c)			(2,728)
Transferred from stock options in capital adjustment (Note d)			234
Gains on disposal of treasury stock (Note e)			176
Retirement of treasury stock (Note f)	(1,083,000)		
September 30, 2006	81,193,711	₩ 44,639	₩ 2,963,880

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

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

(Note c) During the nine months ended September 30, 2006, the convertible bonds with a face value of US$18,420,000 were converted and the capital surplus amount (in connection with the related conversion rights) decreased by ₩2,728 million (net of tax effect of ₩1,034 million).

(Note d) During the nine months ended September 30, 2006, the exercisable period for the stock options representing 43,390 shares, of which recognized compensation costs were ₩234 million, expired and the related stock options of ₩234 million in capital adjustments were transferred to capital surplus in accordance with Korean GAAP [See Note 2 (o)].

(Note e) In relation to the conversion of convertible bonds, 99,361 shares of treasury stock were issued and ₩176 million of gain on disposal of treasury stock were recorded.

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

Table of Contents

13. RETAINED EARNINGS

Retained earnings as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

	September 30, 2006	December 31, 2005
Appropriated	₩ 6,679,235	₩ 5,470,701
Before appropriations	886,220	1,799,160
	₩ 7,565,455	₩ 7,269,861

The details of appropriated retained earnings as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

	September 30, 2006	December 31, 2005
Legal reserve	₩ 22,320	₩ 22,320
Reserve for improvement of financial structure	33,000	33,000
Reserve for loss on disposal of treasury stock	477,182	477,182
Reserve for research and manpower development	880,595	822,061
Reserve for business expansion	5,266,138	4,116,138
Total	₩ 6,679,235	₩ 5,470,701

a. Legal Reserve

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

b. Reserve for Improvement of Financial Structure

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

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

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

d. Reserve for Business Expansion

The reserve for business expansion is voluntary and was approved by the board of directors and stockholders.

14. TREASURY STOCK

Upon issuances of stock dividends and new common stock, and the merger with Shinsegi Telecomm, Inc. and SK IMT Co., Ltd., the Company acquired fractional shares totaling 77,970 shares for ₩6,110 million through 2005. In addition, the Company acquired 8,584,445 shares of treasury stock in the market or through the trust funds for ₩2,040,995 million through 2005 in order to stabilize the market price of its stock. In addition, during the nine months ended September 30, 2006, the convertible bonds with a principal amount of US$18,420,000 were converted into 99,361 shares of common stock. Such conversion was settled by the Company by using its treasury stock with carrying value totaling ₩23,481 million, which resulted in the Company recording ₩176 million of gain on disposal of treasury stock.

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

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

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

15. STOCK OPTIONS

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

The value of stock options granted is determined using the Black-Scholes option-pricing model, without considering the volatility factor in estimating the value of its stock options, as permitted under Korean GAAP. The following assumptions are used to estimate the fair value of options granted in 2000, 2001 and 2002; risk-free interest rate of 9.1% for 2000, 5.9% for 2001 and 6.2% for 2002; expected life of three years for 2000, 2001 and 2002; expected dividend of ₩500 per share for 2000, 2001 and 2002. Under these assumptions, total compensation cost, the recognized compensation cost (included in labor cost) for the three months and nine months ended September 30, 2006 and 2005 and the outstanding balance of stock options in capital adjustment as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

Total Compensation	Recognized compensation cost for the three months ended September 30,	Recognized compensation cost for the nine months ended September 30,	Stock options in capital adjustment September 30,	Stock options in capital adjustment December 31,

Grant date		cost		2006		2005		2006		2005		2006		2005
March 17, 2000(Note a)	₩	1,533	₩		₩		₩		₩		₩		₩	
March 16, 2001(Note b)		234												234
March 8, 2002		3,246								180		3,246		3,246
	₩	5,013	₩		₩		₩		₩	180	₩	3,246	₩	3,480

78

Table of Contents

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

(Note b) During the nine months ended September 30, 2006, the exercisable period expired for stock options representing 43,820 shares, for which the Company had recognized compensation cost of ₩234 million. The related capital adjustment of ₩234 million was transferred to capital surplus.

If the Company had not excluded the volatility factor (expected volatility of 66.8% for options granted in 2000, 67.5% for options granted in 2001, and 63.0% for options granted in 2002), the pro forma total compensation cost would be ₩15,967 million (₩3,738 million for options granted in 2000, ₩3,617 million for options granted in 2001 and ₩8,613 million for options granted in 2002) and the recognized compensation cost for the three months and nine months ended September 30, 2006 would be nil, and the pro forma net income and net income per common share for the three months and nine months ended September 30, 2006, 2005, and 2004 are as follows:

	For the three months ended September 30,		
	2006	2005	2004
Pro forma ordinary income (In millions of Korean won)	₩ 645,935	₩ 789,591	₩ 553,022
Pro forma ordinary income per share (In Korean won)	6,231	7,986	5,367
Pro forma net income (In millions of Korean won)	456,802	587,878	395,088
Pro forma net income per share (In Korean won)	6,231	7,986	5,367

	For the nine months ended September 30,		
	2006	2005	2004
Pro forma ordinary income (In millions of Korean won)	₩ 1,650,637	₩ 1,987,193	₩ 1,632,891
Pro forma ordinary income per share (In Korean won)	15,875	19,332	15,557
Pro forma net income (In millions of Korean won)	1,167,300	1,423,107	1,145,248
Pro forma net income per share (In Korean won)	15,875	19,332	15,557

16. INCOME TAX

a. Details of income tax expense

Income tax expenses for the nine months ended September 30, 2006 and 2005 consist of the following (In millions of Korean won):

	2006	2005
Current	₩ 544,033	₩ 559,738
Deferred (Note a)	(60,696)	4,347
Income tax expenses	483,337	564,085
Less: six months ended June 30,	(294,204)	(362,372)
Three months ended September 30,	₩ 189,133	₩ 201,713

Table of Contents

(Note a) Changes in net deferred tax liabilities for the nine months ended September 30, 2006 and 2005 are as follows (In millions of Korean won):

	2006	2005
Ending balance of net deferred tax liabilities	₩ 324,490	₩ 377,423
Beginning balance of net deferred tax liabilities	(348,563)	(323,096)
Adjustment to the beginning net deferred income tax liabilities based on tax return filed	10,453	8,536
Tax effect of temporary differences charged or credited directly to related components of stockholders equity	(47,076)	(58,516)
	₩ (60,696)	₩ 4,347

b. Reconciling items between accounting income and taxable income

Reconciling items between accounting income and taxable income for the nine months ended September 30, 2006 and 2005 are as follows (In millions of Korean won):

	2006	2005
(Temporary Differences)		
Additions:		
Allowance for doubtful accounts	₩ 149,075	₩ 117,877
Accrued interest income prior period	3,931	4,423
Reserves for research and manpower development	141,000	98,600
Reserves for loss on disposal of treasury stock	177,675	
Equity in losses of affiliates	64,373	117,488
Unrealized loses on valuation of long-term investment securities	47,442	9,411
Accrued expenses	15,300	5,586
Depreciation	40,973	11,977
Loss on impairment of other assets	1,488	8,115
Loss on valuation of currency swap	4,195	
Loss on valuation of currency swap (capital adjustments)	9,807	23,845
Accrued severance indemnities	23,960	17,443
Deposits for severance indemnities	148,610	9,686
Consideration of conversion right	16,246	12,642
Other	45,319	8,597
Sub-total	889,394	445,690
Deductions:		
Reserves for research and manpower development	(135,000)	(97,500)
Allowance for doubtful accounts prior period	(124,184)	(59,612)
Depreciation prior period	(14,867)	(59,360)
Accrued interest income	(7,287)	(7,061)
Equity in earnings of affiliates		(40,484)

Unrealized gains on valuation of long-term investment securities	(229,335)	(116,725)
Accrued expenses	(21,906)	(12,282)
Accrued severance indemnities	(155,633)	(9,686)
Deposits for severance indemnities	(3,424)	(17,443)
Loss on impairment of other assets prior period	(5,109)	(21,070)
Loss on disposal of property, equipment	(38,656)	
Gain on valuation of currency swap		(4,314)
Gain on valuation of currency swap (capital adjustments)		(23,845)
Other	(8,606)	(35,219)
Sub-total	(744,007)	(504,601)
Total Temporary Differences	145,387	(58,911)
(Permanent Differences)	328,066	281,935
Total	₩ 473,453	₩ 223,024

80

Table of Contents

c. Change in cumulative temporary differences and deferred tax liabilities

Changes in cumulative temporary differences for the nine months ended September 30, 2006 and 2005 and deferred tax assets and liabilities as of September 30, 2006 and 2005 are as follows (In millions of Korean won):

For the nine months ended September 30, 2006

Description	January 1, 2006	Increase (Note a)	Decrease (Note a)	September 30, 2006
Current:				
Allowance for doubtful accounts	₩ 122,561	₩ 129,119	₩ 124,184	₩ 127,496
Accrued interest income	(3,931)	(3,987)	(3,931)	(3,987)
Accrued expenses	61,967	15,514	21,906	55,575
Other	189,548	10,710	4,834	195,424
Total	370,145	151,356	146,993	374,508
Temporary differences unlikely to be realized	(147,774)		(19,219)	(128,555)
Total current cumulative temporary differences-net	₩ 222,371	₩ 151,356	₩ 127,774	₩ 245,953
Current deferred tax assets-net (Note b)	₩ 61,152			₩ 67,637
Non-current:				
Property and equipment	(₩ 196,446)	₩ 12,228	₩ 10,964	(₩ 195,182)
Loss on impairment of long-term investment securities	108,145			108,145
Loss on impairment of other long-term assets	7,461		5,973	1,488
Reserves for research and manpower development	(768,000)	(135,000)	(141,000)	(762,000)
Reserves for loss on disposal of treasury stock	(474,081)		(177,675)	(296,406)
Equity in (earnings) losses of affiliates	(5,025)	56,156	328	50,803
Equity in capital adjustment of affiliates	(109,468)		(10,862)	(98,606)
Unrealized loss on valuation of long-term investment securities	58,116	219	182,113	(123,778)
Accrued severance indemnities	148,465	24,106	155,633	16,938
Deposits for severance indemnities	(148,465)	(3,568)	(148,610)	(3,423)
Loss on valuation of currency swap	13,244	4,195		17,439
Loss on valuation of currency swap (capital adjustment)	19,554	9,807		29,361
Loss on valuation of interest rate swap (capital adjustment)		2,747		2,747

Considerations for conversion right	(67,279)		(3,762)	(63,517)
Other	(10,647)	60,117	(1,911)	51,381
Total	(1,424,426)	31,007	(128,809)	(1,264,610)
Temporary differences unlikely to be realized	(65,447)	(97,197)	(1,336)	(161,308)
Total non-current cumulative temporary differences-net	(₩ 1,489,873)	(₩ 66,190)	(₩ 130,145)	(₩ 1,425,918)
Total non-current deferred tax liabilities-net (Note b)	(₩ 409,715)			(₩ 392,128)

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

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

Table of Contents

For the nine months ended September 30, 2005

Description	January 1, 2005	Increase (note b)	Decrease (note b)	September 30, 2005
Current :				
Allowance for doubtful accounts	₩ 59,622	₩ 117,867	₩ 59,612	₩ 117,877
Accrued interest income	(7,796)	(3,688)	(4,423)	(7,061)
Other	235,000	5,079	17,206	222,873
Total	286,826	₩ 119,258	₩ 72,395	333,689
Temporary differences unlikely to be realized (note a)	(128,555)			(128,555)
Total current cumulative temporary differences-net	₩ 158,271			₩ 205,134
Current deferred tax assets-net (note c)	₩ 43,525			₩ 56,412
Non-current :				
Property and equipment	(127,822)	(44,551)	5,924	(178,297)
Loss on impairment of long-term investment securities	106,752	(400)		106,352
Loss on impairment of other long-term assets	21,070	8,116	21,070	8,116
Reserves for research and manpower development	(709,467)	(97,500)	(98,600)	(708,367)
Reserves for loss on disposal of treasury stock	(474,081)			(474,081)
Equity in (earnings) losses of affiliates	(89,441)	79,291		(10,150)
Equity in capital adjustment of affiliates		(144,730)		(144,730)
Unrealized loss on valuation of long-term investment securities		(17,933)		(17,933)
Accrued severance indemnities	139,524	14,057	9,686	143,895
Deposits for severance indemnities	(139,524)	(14,057)	(9,686)	(143,895)
Loss on valuation of derivative instruments	15,789		4,313	11,476
Loss on valuation of derivative instruments -capital adjustment		25,607		25,607
Considerations for conversion right		(67,279)		(67,279)
Other	(122,004)	254,690	144,112	(11,426)
Total	(1,379,204)	(₩ 4,689)	₩ 76,819	(1,460,712)
	46,038			(116,869)

Temporary differences unlikely to be realized (note a)		
Total non-current cumulative temporary differences-net	(₩ 1,333,166)	(₩ 1,577,581)
Total non-current deferred tax liabilities-net (note c)	(₩ 366,621)	(₩ 433,835)

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

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

(note c) The statutory tax rate used in measuring deferred tax asset and liabilities is 27.5%.

Table of Contents

Deferred tax assets and liabilities before offsetting each other are as follows (In millions of Korean won):

	September 30, 2006	December 31, 2005
Deferred tax assets	₩ 149,393	₩ 192,044
Deferred tax liabilities	(473,884)	(540,607)
Deferred tax assets (liabilities), net	(₩ 324,491)	(₩ 348,563)
Current, net	₩ 67,637	₩ 61,152
Non-current, net	(₩ 392,128)	(₩ 409,715)

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

Deferred tax assets (liabilities) added to (deducted from) capital surplus or capital adjustments as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

	September 30, 2006	December 31, 2005
Gains on disposal of treasury stock	(₩ 30,226)	(₩ 30,576)
Considerations for conversion right	(17,467)	(18,502)
Unrealized loss on valuation of long-term investment securities	(34,039)	15,982
Equity in capital adjustment of affiliates, net	(34,242)	(32,350)
Loss on valuation of currency swap	8,074	5,377
Loss on valuation of interest rate swap	755	
Total	(₩ 107,145)	(₩ 60,069)

e. Effective tax rate

Effective tax rates for the three months and nine months ended September 30, 2006 and 2005 are as follows (In millions of Korean won):

	For the three months ended		For the nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Income before income tax	₩ 645,935	₩ 789,591	₩ 1,650,637	₩ 1,987,490
Income tax expenses	189,133	201,713	483,337	564,085
Effective tax rate	29.28%	25.55%	29.28%	28.38%

83

Table of Contents

17. NET INCOME AND ORDINARY INCOME PER SHARE

The Company s net income and ordinary income per share amounts for the three months and nine months ended September 30, 2006 and 2005 are computed as follows (In millions of Korean won, except for per share income per share):

Net income and ordinary income per share

	For the three months ended September 30, 2006	For the three months ended September 30, 2005	For the nine months ended September 30, 2006	For the nine months ended September 30, 2005
Net income and ordinary income	₩ 456,802	₩ 587,878	₩ 1,167,300	₩ 1,423,405
Weighted average number of common shares outstanding	73,314,653	73,614,296	73,531,415	73,614,296
Net income and ordinary income per share	₩ 6,231	₩ 7,986	₩ 15,875	₩ 19,336

Net income and ordinary income per share for the year ended December 31, 2005 were ₩25,421 and net income and ordinary income per share for the three months ended March 31, 2006 and 2005 are ₩4,580 and ₩5,005, respectively, and for the three months ended June 30, 2006 and 2005 are ₩5,068 and ₩6,345, respectively.

The weighted average number of common shares outstanding for the three months and nine months ended September 30, 2006 and 2005 is calculated as follows:

	Number of shares	Weighted number of days	Weighted number of shares
For the three months ended September 30, 2006			
Outstanding common stocks at July 1, 2006	82,276,711	92/92	82,276,711
Treasury stocks at July 1, 2006	(8,563,054)	92/92	(8,563,054)
Retirement of treasury stock (Note a)	(1,083,000)	34 / 92 (Note a)	(399,004)
Total	72,630,657		73,314,653
For the nine months ended September 30, 2006			
Outstanding common stocks at January 1, 2006	82,276,711	273/273	82,276,711
Treasury stocks at January 1, 2006	(8,662,415)	273/273	(8,662,415)
Conversion of convertible bonds into treasury stock (Note b)	99,361	142 / 273 (Note b)	51,582
Retirement of treasury stock (Note a)	(1,083,000)	34 / 273 (Note a)	(134,463)

Total	72,630,657	73,531,415

(Note a) The Company retired treasury stocks which were acquired on two different dates during the nine months ended September 30, 2006, and weighted number of shares was calculated considering each transaction date.

(Note b) Treasury stocks were used to settle the conversion of the convertible bonds on several different dates during the nine months ended September 30, 2006 and weighted number of shares was calculated considering each transaction date.

84

	Number of shares	Weighted number of days	Weighted number of shares
For the three months ended September 30, 2005			
Issued common stocks at July 1, 2005	82,276,711	92/92	82,276,711
Treasury stocks at July 1, 2005	(8,662,415)	92/92	(8,662,415)
Total	73,614,296		73,614,296
For the nine months ended September 30, 2005			
Issued common stocks at January 1, 2005	82,276,711	273/273	82,276,711
Treasury stocks at January 1, 2005	(8,662,415)	273/273	(8,662,415)
Total	73,614,296		73,614,296

Diluted net income and ordinary income per share amounts for the three months and nine months ended September 30, 2006 and 2005 are computed as follows (In millions of Korean won, except for share data):

<u>Diluted net income and ordinary income per share</u>

	For the three months ended		For the nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Adjusted net income and ordinary income	₩ 460,152	₩ 591,305	₩ 1,177,231	₩ 1,433,099
Adjusted weighted average number of common shares outstanding	75,000,469	75,332,996	75,265,373	75,332,996
Diluted net income and ordinary income per share	₩ 6,135	₩ 7,849	₩ 15,641	₩ 19,024

Diluted net income and ordinary income per share for the year ended December 31, 2005 are ₩25,015 and diluted net income and ordinary income per share for the three months ended March 31, 2006 and 2005 are ₩4,516 and ₩4,932, respectively, and for the three months ended June 30, 2006 and 2005 are ₩4,996 and ₩6,243, respectively.

Adjusted net income and ordinary income per share and the adjusted weighted average number of common shares outstanding for the three months and nine months ended September 30, 2006 and 2005 are calculated as follows (In millions of Korean won, except for share data):

	For the three months ended	For the nine months ended

	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Net income and ordinary income	₩ 456,802	₩ 587,878	₩ 1,167,300	₩ 1,423,405
Effect of stock options (Note a)				
Effect of convertible bonds (Note b)	3,350	3,427	9,931	9,694
Adjusted net income and ordinary income	₩ 460,152	₩ 591,305	₩ 1,177,231	₩ 1,433,099

85

	For the three months ended		For the nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Weighted average number of common shares outstanding	73,314,653	73,614,296	73,531,415	73,614,296
Effect of stock options (Note a)				
Effect of convertible bonds (Note b)	1,685,816	1,718,700	1,733,958	1,718,700
Adjusted weighted average number of common shares outstanding	75,000,469	75,332,996	75,265,373	75,332,996

(Note a) For the three months and nine months ended September 30, 2006 and 2005, the outstanding stock options did not have a dilutive effect because the exercise price exceeded the average market price of common stock for the three months and nine months ended September 30, 2006 and 2005 and for the year ended December 31, 2005, respectively.

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

18. RESTRICTED DEPOSITS

a. At September 30, 2006, the Company has restricted guarantee deposits for its checking accounts totaling ₩26 million, which are recorded as long-term deposits.

b. The Company entered into a contract with First Data Corporation to sell the investment in common stock of KPMS Corporation, which was held by the Company and accounted for as available-for-sale securities. At September 30, 2006, certain portion of proceeds from sales of such investment totaling ₩1,137 million is kept in escrow accounts in accordance with the Escrow Agreement, which is restricted for use until November 16, 2007, the final settlement date, and recorded as long-term deposits.

19. INTERIM DIVIDENDS

In accordance with the resolution of the Company s board of directors dated July 28, 2006, the Company declared and paid cash dividends during the three months ended September 30, 2006 based on outstanding number of common shares at June 30, 2006 as follows (in millions of Korean won except for per share data) :

Number of shares outstanding as of June 30, 2006	Par value per share	Dividend ratio	Dividends
73,713,657	₩500	200%	₩73,714

20. INSURANCE

As of September 30, 2006, certain Company s assets are insured with local insurance companies as follows (In millions of Korean won and thousands of U.S. dollars):

Insured	Risk	Carrying value		Coverage	
				US$	58,115
Property and equipment	Fire and comprehensive	₩	3,335,730	₩	7,255,411

liability

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

86

Table of Contents

21. RELATED PARTY TRANSACTIONS

a. Holding company and subsidiaries

As of September 30, 2006 and December 31, 2005, parent company and subsidiaries of the Company are as follows:

Type	Company	Ownership percentage (%)	Types of business
Parent company	SK Corporation	22.8 (Note a)	Manufacturing and selling petrochemicals
Subsidiary	SK Capital Co., Ltd.	100	In arrangement to commence the business
"	SK Telink Co., Ltd.	90.8	Telecommunication service
"	SK Communications Co., Ltd.	86.5	Internet website services
"	SK Wyverns Baseball Club Co., Ltd.	100.0	Business related sports
"	Global Credit & Information Co., Ltd.	50.5	Credit and collection services
"	PAXNet Co., Ltd.	65.9	Internet website services
"	Seoul Records, Inc.	60.0	Release of music disc
"	SLD Telecom PTE Ltd.	73.3	Telecommunication service
"	SK Telecom China Co., Ltd.	100.0	Telecommunication service
"	U-Land Company Ltd	70.1	Telecommunication service
"	IHQ, Inc.	34.3	Entertainment management
"	SK Telecom USA Holdings, Inc.	100.0	Telecommunication service
"	SK Telecom International Inc.	100.0	Telecommunication service
"	Centurion IT Investment Association	37.5	Investment association
"	The First Music Investment Fund of SK-PVC	69.3	Investment association
"	The Second Music Investment Fund of SK-PVC	79.3	Investment association
"	SK-KTB Music Investment Fund	74.3	Investment association
"	IMM Cinema Fund	48.4	Investment association
"	Cyworld, Inc.	100.0 (Note b)	Internet website services
"	Cyworld Japan Co., Ltd.	100.0	Internet website services
"	SK Cyberpass Inc.	70.5 (Note b)	Telecommunication service
"	Masoolpiri	51.4 (Note b)	Film production
"	YTN Media Inc.,	51.4 (Note b)	Broadcasting program production
"	Ntreev Soft Co., Ltd	51.0 (Note b)	Game program production
"	Ifilm Co., Ltd.	45.0 (Note b)	Film production
"	IHQ USA, Inc.	100.0 (Note b)	Surveying marketing information
"	SK Telecom Europe Ltd.	100.0	Wireless telecommunication related business
"	SK Telecom Advanced Tech & Service Center	100.0	Research & Development
"	Cyworld Europe GmbH	50.2 (Note b)	Internet Website services

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

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

b. Transactions and balances with related parties

Significant related party transactions for the three months and nine months ended September 30, 2006 and 2005, and account balances as of September 30, 2006 and December 31, 2005 are as follows (In millions of Korean won):

b-(1) Transactions

	For the three months ended September 30, 2006			For the nine months ended September 30, 2006		
	Purchases of property and equipment	Commissions paid and other expenses	Commissions earned and other income	Purchases of property and equipment	Commissions paid and Other expenses	Commissions earned and other income
Parent Company:						
SK Corporation	₩ 5	₩ 9,274	₩ 1,663	₩ 859	₩ 25,233	₩ 6,759
Subsidiaries:						
SK Communications Co., Ltd.	40	10,884	541	51	30,984	1,949
Global Credit & Information Co., Ltd.		10,043	292		26,413	927
PAXNet Co., Ltd.		1,726	322		6,539	1,176
SK Telink Co., Ltd.		2,684	4,268		10,998	12,724
Others	8	5,656	2	12	17,828	2
Equity Method Investees:						
WiderThan Co., Ltd.	374	29,795	9	1,341	77,791	981
Helio, LLC.			15,123			28,044
SK C&C Co., Ltd.	41,493	68,729	1,770	87,269	210,607	5,637
TU Media Corp.		414	14,500	573	1,055	36,394
Others	950	5,845	297	3,896	13,153	7,641
Others :						
SK Engineering & Construction Co., Ltd.	76,868	2,224	520	123,072	3,299	1,911
SK Networks Co., Ltd.	821	118,703	3,049	2,705	336,834	8,514
Innoace Co., Ltd.	3,010	579	49	4,394	3,445	156
SK Telesys Co., Ltd.	49,920	1,020	758	133,659	2,187	1,807
Others	147	3,100	920	176	6,351	2,269
Total	₩ 173,636	₩ 270,676	₩ 44,083	₩ 358,007	₩ 772,717	₩ 116,891

	For the three months ended September 30, 2005			For the nine months ended September 30, 2005		
	Purchases of	Commissions	Commission	Purchases of	Commissions	Commission

	property and equipment	paid and other expenses	and other income	property and equipment	paid and Other expenses	and other income
Parent Company:						
SK Corporation	₩ 457	₩ 10,741	₩ 1,309	₩ 927	₩ 33,814	₩ 5,478
Subsidiaries:						
SK Communications Co., Ltd.	31	12,428	186	157	31,338	671
Global Credit & Information Co., Ltd.		9,585	292		25,547	766
PAXNet Co., Ltd.		2,664	766		12,050	1,773
SK Telink Co., Ltd.		3,179	4,592		9,587	11,745
Others		3,601		576	17,632	976
Equity Method Investees:						
WiderThan Co., Ltd.	1,547	24,948	209	6,109	70,821	241
SK C&C Co., Ltd.	39,182	80,173	1,990	67,239	223,272	6,232
TU Media Corp.		908	8,337		1,009	17,142
Others	7	4,276	540	97	11,065	898
Others:						
SK Engineering & Construction Co., Ltd.	61,591	2,220	524	111,738	2,814	1,420
SK Networks Co., Ltd.	6,499	108,260	2,284	7,626	313,404	9,505
Innoace Co., Ltd.	3,363	379	55	8,009	1,495	165
SK Telesys Co., Ltd.	78,415	863	106	145,219	2,400	296
Others	1,001	3,161	583	1,288	6,394	1,650
Total	₩ 192,093	₩ 267,386	₩ 21,773	₩ 348,985	₩ 762,642	₩ 58,958

Table of Contents

b-(2) Account balances

	As of September 30, 2006					
	Accounts receivable	Short-term loans	Long-term loans	Guarantee deposits	Accounts payable	Guarantee deposits received
Parent Company:						
SK Corporation.	₩ 860	₩	₩	₩ 291	₩ 5,308	₩ 6,174
Subsidiaries:						
SK Communications Co., Ltd.	1,062				6,420	3,681
SK Wyverns Baseball Club Co., Ltd.	276	575	4,707			
Global Credit & Information Co., Ltd.	5				3,446	
PAXNet Co., Ltd.	147				1,005	
SK Telink Co., Ltd.	930				853	826
Equity Method Investees:						
WiderThan Co., Ltd.	12				4,953	
SK C&C Co., Ltd.	214				49,153	346
Helio, LLC.	15,096					
Others	7,850				4,865	3,242
Others:						
SK Engineering & Construction Co., Ltd.	183				676	942
SK Networks Co., Ltd.	940			113	37,651	2,967
Innoace Co., Ltd.	20				1,082	2,291
SK Telesys Co., Ltd.	11				37,340	
Others	683			900	1,569	
Total	₩ 28,289	₩ 575	₩ 4,707	₩ 1,304	₩ 154,321	₩ 20,469

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

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

c. Compensation for the key management

89

Table of Contents

The Company considers registered directors who have substantial roles and responsibility for planning, operating, and controlling of the business as key management, and the considerations given to the key management for the three months and the nine months ended September 30, 2006 are as follows(In millions of Korean won):

	For the three months ended September 30, 2006			For the nine months ended September 30, 2006 (Note)		
Payee	Payroll	Severance indemnities	Total	Payroll	Severance indemnities	Total
12 Registered directors (including outside directors)	₩ 507	₩ 136	₩ 643	₩ 3,687	₩ 799	₩ 4,486

(Note) Compensation for an ex-outside director who resigned during the three months ended June 30, 2006 is included.

In addition, on March 8, 2002, the Company granted stock options to its nine key members of the management, representing 15,110 shares at an exercise price of ₩267,000 per share. The stock options fully vested after three years from the date of grant and are exercisable for two years upon vesting. Upon exercise of stock options, the Company will issue its common stock or deliver treasury stock.

22. PROVISION FOR MILEAGE POINTS

The Company, for its marketing purposes, grants certain mileage points (Rainbow Points) to its subscribers based on their usage of the Company s services. Rainbow Points provision was provided based on the historical usage experience and the Company s marketing policy. Such provision was recorded as accrued expenses and details of change in the provisions for such mileage points for the nine months ended September 30, 2006 and 2005 are as follows (In millions of Korean won):

	September 30, 2006 (Note a)	September 30, 2005 (Note a)
Beginning balance	₩ 52,172	₩ 61,596
Increase	9,679	9,065
Decrease	(9,381)	(12,403)
Ending balance	₩ 52,470	₩ 58,258

(Note a) Beginning and ending balances for the nine months ended September 30, 2006 are stated at their discounted values in accordance with SKAS No. 17 and beginning and ending balances for the nine months ended September 30, 2005 are stated at their nominal values.

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

The expected year when unused Rainbow Points as of September 30, 2006 are expected to be used and the respective estimated monetary amount to be paid in a given year are as follows (In millions of Korean won):

Expected usage for the year ended September 30,	Estimated amount to be paid In nominal value (Note b)	Current value (Note b)
2007	₩ 26,532	₩ 25,311

2008		15,870		14,443
2009		8,452		7,340
2010		4,364		3,615
2011		2,228		1,761
Ending balance	₩	57,446	₩	52,470

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

Table of Contents

23. DERIVATIVE INSTRUMENTS

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

The Company has entered into a fixed-to-fixed cross currency swap contract with Citibank, BNP Paribas and Credit Suisse First Boston International to hedge the foreign currency risk of unguaranteed U.S. dollar denominated bonds with face amounts totaling US$300,000,000 at annual fixed interest rate of 4.25% issued on April 1, 2004. As of September 30, 2006, in connection with unsettled foreign currency swap contract to which the cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to ₩21,287 million (excluding tax effect totaling ₩8,074 million and foreign exchange translation gain arising from unguaranteed U.S. dollar denominated bonds totaling ₩60,821 million) was accounted for as a capital adjustment.

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

The Company has entered into a fixed-to-fixed cross currency swap contract with Credit Suisse First Boston International to hedge foreign currency risk of unguaranteed U.S. dollar denominated convertible bonds with face amounts of US$329,450,000 issued on May 27, 2004. In connection with unsettled fixed-to-fixed cross currency swap contract to which the cash flow hedge accounting is not applied, loss on valuation of currency swap of ₩8,553 million for the nine months ended September 30, 2006 and gains on valuation of currency swap of ₩4,314 million for the nine months ended September 30, 2005 were charged to current operations.

In addition, the company has entered into a fixed-to-fixed cross currency swap contract with Hana Bank, Korea Exchange Bank, Woori Bank, Shinhan Bank, Citibank and Barclays Bank to hedge foreign currency risk of unguaranteed U.S. dollar denominated convertible bonds issued by China Unicom which was acquired on July 5, 2006. In connection with unsettled fixed-to-fixed cross currency swap contract to which the cash flow hedge accounting is not applied, gain on valuation of currency swap of ₩4,358 million for the nine months ended September 30, 2006 were charged to current operations.

c. Interest rate swap

The Company has entered into a floating-to-fixed interest rate swap contract with Shinhan Bank to hedge the interest rate risk of floating rate discounted bill with face amounts totaling ₩200,000 million borrowed on June 29, 2006. As of September 30, 2006, in connection with unsettled interest rate swap contract to which the cash flow hedge accounting is applied, an accumulated loss on valuation of derivatives amounting to ₩1,991 million (excluding tax effect totaling ₩755 million) was accounted for as a capital adjustment.

As of September 30, 2006, fair values of above derivatives recorded in long-term liabilities and details of derivative instruments as of September 30, 2006 are as follows (In thousands of U.S. dollars and millions of Korean won):

Table of Contents

Type	Hedged item	Face Amount	Duration of contract	Fair value Designated as cash flow hedge	Not designated	Total
Current assets:						
Fix-to-fixed cross currency swap	U.S. dollar denominated convertible bond issued by China Unicom	US1,000,000	July 5, 2006 ~ July 5, 2007	₩	₩ 4,358	₩ 4,358
				₩	₩ 4,358	₩ 4,358
Non-current liabilities:						
Fix-to-fixed cross currency swap	U.S. dollar denominated bonds	US$300,000	March 23, 2004 ~ April 1, 2011	₩ 90,182	₩	₩ 90,182
Fix-to-fixed cross currency swap	U.S. dollar denominated convertible bond	US$100,000	May 27, 2004 ~ May 27, 2009		21,798	21,798
				90,182	21,798	111,980
Floating-to-fixed Interest rate swap	Long-term floating rate discounted bill	₩ 200,000	June 29, 2006 ~ June 29, 2010	2,747		2,747
				₩92,929	₩21,798	₩114,727

24. COMMITMENTS

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 Helio, LLC. , 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, via SK Telecom USA Holdings, Inc., its wholly-owned subsidiary in the United States of America, has invested US$200.5 million from 2005 through September 30, 2006 and will additionally invest US$19.5 million through 2007 to maintain a 50% equity interest in the joint venture company. Helio, LLC. launched cellular voice and data services extensively across the United States of America in May 2006, by renting networks from network operators throughout the United States of America also known as partial mobile virtual network operator (MVNO) system.

25. STATEMENTS OF CASH FLOWS

The statements of cash flows are prepared using the indirect method and significant non-cash transactions for the three months and nine months ended September 30, 2006 are as follows (In millions of Korean won):

	For the three months ended September 30, 2006	For the nine months ended September 30, 2006
Conversion of convertible bonds	₩	₩ 21,575
Retirement of treasury stock	209,077	209,077

There was no significant non-cash transaction for the three months and nine months ended September 30, 2005.

Table of Contents

26. SUBSEQUENT EVENTS

The Company is expected to sell 2,000,000 shares of WiderThan Co., Ltd. held by the Company, representing 10.10% of the total outstanding common stock of WiderThan Co., Ltd., for US$34.1 million (US$17.05 per share), to RealNetworks, Inc., a U.S.A. company, on October 31, 2006.

Table of Contents

Forward-Looking Statement Disclaimer

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

SIGNATURES

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

SK Telecom Co., Ltd.
(*Registrant*)

By: /s/ Tae Jin Park

(*Signature*)
Name: Tae Jin Park
Title: Vice President

Date: February 5, 2007