

SK BROADBAND CO., LTD.

Financial Statements

December 31, 2014

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
SK Broadband Co., Ltd.:

We have audited the accompanying financial statements of SK Broadband Co., Ltd. (the "Company") which comprise the statement of financial position as of December 31, 2014, the statements of income, comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with Korean International Financial Reporting Standards.



Other Matter

The accompanying statement of financial position of the Company as of December 31, 2013, and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended, were audited by other auditors in accordance with the previous auditing standards generally accepted in the Republic of Korea, whose report thereon, dated March 13, 2014, expressed an unqualified opinion.

The procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

KPMG Samjong Accounting Corp.

Seoul, Korea
February 22, 2015

This report is effective as of February 22, 2015, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SK BROADBAND CO., LTD.
Statements of Financial Position

As of December 31, 2014 and 2013

(In thousands of won)

	Note	December 31, 2014	December 31, 2013
Assets			
Cash and cash equivalents	28, 29	₩ 20,462,661	68,234,682
Short-term financial instruments	5,28,29	2,571,000	3,284,000
Trade and other receivables, net	6,28,29,30	403,149,127	422,195,795
Inventories, net	7,30	11,182,680	24,772,824
Income tax refund receivable	26	324,392	873,510
Other current assets	13	27,121,391	22,786,286
Current Assets		464,811,251	542,147,097
Long-term financial instruments	5,28,29	8,500	8,500
Long-term investment securities	8,28,29	6,013,781	12,661,403
Long-term trade and other receivables, net	6,28,29,30	75,636,185	72,897,962
Investments in associates	9	24,420,015	20,077,336
Property and equipment, net	10,30	2,317,256,916	2,191,449,496
Investment property, net	11	24,608,449	25,603,513
Intangible assets, net	12	178,440,497	171,690,541
Other non-current assets	13	17,536,195	7,813,493
Long-term derivative financial assets	18	2,306,604	-
Non-Current Assets		2,646,227,142	2,502,202,244
Total Assets		₩ 3,111,038,393	3,044,349,341

See accompanying notes to the financial statements.

SK BROADBAND CO., LTD.
Statements of Financial Position, Continued

As of December 31, 2014 and 2013

(In thousands of won)

	Note	December 31, 2014	December 31, 2013
Liabilities			
Accounts payable - other	28,29,30	₩ 434,856,736	513,495,962
Short-term borrowings and current portion of long-term debt	14,28,29	429,879,518	399,578,247
Other current financial liabilities	15,28,29	3,206,097	18,829,664
Other current liabilities	16	14,991,152	12,072,191
Current Liabilities		882,933,503	943,976,064
Long-term payables - other	28,29,30	20,242,234	17,719,309
Long-term borrowings and debentures, excluding current portion	14,28,29	1,023,679,031	900,505,179
Other non-current financial liabilities	15,28,29	-	3,206,097
Other non-current liabilities	16	9,060,764	10,674,224
Provisions	17	3,532,428	3,597,643
Long-term derivative financial liabilities	18	-	2,958,432
Defined benefit liabilities	19	49,978,878	34,084,166
Non-Current Liabilities		1,106,493,335	972,745,050
Total Liabilities		1,989,426,838	1,916,721,114
Equity			
Share capital	1,20	1,479,795,435	1,479,795,435
Capital surplus and other capital adjustments	20	314,189,109	314,189,109
Accumulated deficit	22	(663,477,913)	(665,227,885)
Reserves	21	(8,895,076)	(1,128,432)
Total Equity	35	1,121,611,555	1,127,628,227
Total Liabilities and Equity		₩ 3,111,038,393	3,044,349,341

See accompanying notes to the financial statements.

SK BROADBAND CO., LTD.
Statements of Income

For the years ended December 31, 2014 and 2013

(In thousands of won, except earnings per share)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Operating revenue:			
Revenue	30,34 ₩	2,654,381,278	2,539,365,951
Operating expense:	30		
Labor cost	19,30	154,595,537	151,370,003
Depreciation and amortization	10,11,12	489,482,920	467,260,870
Telecommunication equipment lease expenses		205,427,391	190,568,476
Sales commissions paid		241,499,375	246,575,556
Interconnection charges		220,266,527	242,691,543
Commissions paid		780,220,364	686,826,418
Cost of products that have been resold		118,155,484	108,027,399
Advertising		119,415,117	112,686,181
Maintenance		118,355,211	113,719,499
Utilities		62,800,380	58,438,675
Bad debt	6	14,379,880	17,791,926
Other operating expenses	23	71,628,924	70,246,748
		<u>2,596,227,110</u>	<u>2,466,203,294</u>
Operating income	35	58,154,168	73,162,657
Finance income	24	20,939,477	10,998,402
Finance costs	24,35	(75,748,713)	(71,909,761)
Other non-operating income	25	12,504,003	14,965,626
Other non-operating expenses	25	(11,778,193)	(14,219,723)
Gain (loss) relating to investments in associates	9	236,752	(691,253)
Profit before income tax		4,307,494	12,305,948
Income tax expense	26	-	-
Profit for the year	₩	4,307,494	12,305,948
Earnings per share	27		
Basic earnings per share (in won)	₩	15	42

See accompanying notes to the financial statements.

SK BROADBAND CO., LTD.
Statements of Comprehensive Income (Loss)

For the years ended December 31, 2014 and 2013

(In thousands of won)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Profit for the year	₩	4,307,494	12,305,948
Other comprehensive income (loss)			
Items that will never be reclassified to profit or loss:			
Remeasurement of defined benefit liabilities	19	(2,557,522)	6,332,388
Items that are or may be reclassified subsequently to profit or loss:			
Net change in unrealized fair value of available-for-sale financial assets	8,21	-	930,696
Loss on valuation of derivatives	18,21,24	(7,766,644)	(1,128,432)
		<u>(10,324,166)</u>	<u>6,134,652</u>
Total comprehensive income (loss)	₩	<u>(6,016,672)</u>	<u>18,440,600</u>

See accompanying notes to the financial statements.

SK BROADBAND CO., LTD.
Statements of Changes in Equity

For the years ended December 31, 2014 and 2013

(In thousands of won)

		Capital surplus and other capital adjustments						
		Share capital	Paid-in surplus	Others	Share-based compensation	Accumulated deficit	Reserves	Total equity
Balance at January 1, 2013	₩	1,479,795,435	360,042,663	(53,683,162)	9,189,545	(683,866,221)	(930,696)	1,110,547,564
Total comprehensive income :								
Profit for the year		-	-	-	-	12,305,948	-	12,305,948
Loss on valuation of derivatives		-	-	-	-	-	(1,128,432)	(1,128,432)
Net change in fair value of available-for-sale financial assets		-	-	-	-	-	930,696	930,696
Remeasurement of defined benefit liabilities		-	-	-	-	6,332,388	-	6,332,388
Transactions with owners of the Company, recognized directly in equity :								
Forfeiture of share-based compensation		-	-	4,426,241	(4,426,241)	-	-	-
Cost related to subsidiary's stock issuance		-	-	(1,359,937)	-	-	-	(1,359,937)
Balance at December 31, 2013	₩	1,479,795,435	360,042,663	(50,616,858)	4,763,304	(665,227,885)	(1,128,432)	1,127,628,227
Balance at January 1, 2014	₩	1,479,795,435	360,042,663	(50,616,858)	4,763,304	(665,227,885)	(1,128,432)	1,127,628,227
Total comprehensive income :								
Profit for the year		-	-	-	-	4,307,494	-	4,307,494
Loss on valuation of derivatives		-	-	-	-	-	(7,766,644)	(7,766,644)
Remeasurement of defined benefit liabilities		-	-	-	-	(2,557,522)	-	(2,557,522)
Transactions with owners of the Company, recognized directly in equity :								
Forfeiture of share-based compensation		-	-	4,763,304	(4,763,304)	-	-	-
Balance at December 31, 2014	₩	1,479,795,435	360,042,663	(45,853,554)	-	(663,477,913)	(8,895,076)	1,121,611,555

See accompanying notes to the financial statements.

SK BROADBAND CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(In thousands of won)

	Note	2014	2013
Cash flows from operating activities:			
Cash generated from operating activities			
Profit for the year	₩	4,307,494	12,305,948
Adjustments for income and expenses	33	574,327,227	562,261,323
Changes in assets and liabilities related to operating activities	33	(98,587,030)	(90,233,473)
Sub-total		480,047,691	484,333,798
Interest received		3,674,005	7,081,298
Dividends received		500	500
Interest paid		(51,962,151)	(51,379,474)
Income tax paid		-	-
Net cash provided by operating activities		431,760,045	440,036,122
Cash flows from investing activities:			
Cash inflows from investing activities:			
Decrease in short-term financial instruments		2,784,000	201,694,000
Decrease in long-term financial instruments		-	2,500
Collection of short-term loans		5,523,096	4,454,473
Proceeds from disposal of long-term investment securities		533,810	1,039,558
Proceeds from disposal of investments in associates		394,073	2,027,975
Proceeds from disposal of property and equipment		4,943,381	6,742,893
Proceeds from disposal of intangible assets		3,083,190	12,000
Collection of long-term loans		441,937	378,821
Decrease in deposits		4,632,085	4,886,657
Sub-total		22,335,572	221,238,877
Cash outflows for investing activities:			
Increase in short-term financial instruments		(2,071,000)	(51,784,000)
Increase in short-term loans		(2,138,202)	(3,091,094)
Acquisition of investments in associates		(4,500,000)	-
Acquisition of property and equipment		(585,652,958)	(475,197,309)
Acquisition of intangible assets		(14,033,422)	(11,486,819)
Increase in long-term loans		(3,604,236)	(2,176,083)
Increase in deposits		(9,351,978)	(6,849,475)
Sub-total		(621,351,796)	(550,584,780)
Net cash used in investing activities		(599,016,224)	(329,345,903)

See accompanying notes to the financial statements.

SK BROADBAND CO., LTD.
Statements of Cash Flows, Continued

For the years ended December 31, 2014 and 2013

(In thousands of won)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from short-term borrowings, net	₩	71,000,000	-
Proceeds from long-term borrowings		49,000,000	8,600,000
Issuance of debentures		418,257,750	313,835,170
Sub-total		<u>538,257,750</u>	<u>322,435,170</u>
Cash outflows for financing activities:			
Repayment of short-term borrowings, net		-	(270,244,564)
Repayment of debentures		(390,000,000)	-
Repayment of long-term borrowings		(28,650,184)	(180,011,481)
Cash outflows for capital transactions		-	(1,359,937)
Repayment of long-term account payables- other		(123,473)	-
Sub-total		<u>(418,773,657)</u>	<u>(451,615,982)</u>
Net cash provided by (used in) financing activities		<u>119,484,093</u>	<u>(129,180,812)</u>
Net decrease in cash and cash equivalents		<u>(47,772,086)</u>	<u>(18,490,593)</u>
Cash and cash equivalents at beginning of the year		68,234,682	86,725,907
Effects of exchange rate changes on cash and cash equivalents		65	(632)
Cash and cash equivalents at end of the year	₩	<u>20,462,661</u>	<u>68,234,682</u>

See accompanying notes to the financial statements.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

1. Reporting Entity

SK Broadband Co., Ltd. (the "Company") was incorporated on September 26, 1997, under the laws of the Republic of Korea ("Korea") to provide local telephony services in Korea. On November 11, 1998, the Company was listed on the Korea Securities Dealers Automated Quotation System ("KOSDAQ").

The Company commenced providing local call and high-speed data access, internet and multimedia access on April 1, 1999, and is providing services all over the country, including Seoul, Busan, Ulsan and Incheon as of December 31, 2014. On December 12, 2002, the Company received a license to provide domestic long-distance calls and international calls from the Ministry of Information and Communication ("MIC"), and commenced providing the services from July 1, 2004. After launching TV-portal services on July 24, 2006, the Company received a license to provide IPTV on September 24, 2008, and started the service on January 12, 2009.

The Company's head office is located at Toegye-ro, Jung-gu, Seoul. The Company's share capital was ₩600,411 million when it was incorporated and increased to ₩1,479,795 million as of December 31, 2014 after several issues and redemptions.

The Company's major shareholder is SK Telecom Co., Ltd., who owns 149,638,354 common shares (50.56%) of the Company as of December 31, 2014.

2. Basis of Presentation

(1) Statement of compliance

The financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea*.

The financial statements were authorized for issue by the Board of Directors on January 28, 2015, which will be submitted for approval to the shareholders' meeting to be held on March 20, 2015.

(2) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- ✓ derivative financial instruments are measured at fair value
- ✓ available-for-sale financial assets are measured at fair value
- ✓ liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(3) Functional and presentation currency

These financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

2. Basis of Presentation, Continued

(4) Use of estimates and judgments

The preparation of the financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

1) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes: revenue, classification of the investment property, and lease classification.

2) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes: estimated useful lives of the Company's property and equipment and intangible assets, establishment of allowance for doubtful accounts of trade and other receivables, recognition of deferred tax assets, recognition of provisions, measurement of defined benefit obligations, and commitments and contingencies.

3) Fair value measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- ✓ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- ✓ Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- ✓ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

2. Basis of Presentation, Continued

(4) Use of estimates and judgments, Continued

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in note 29 (Financial Risk Management).

3. Changes in Accounting Policies

Except for the changes below, the Company has consistently applied the accounting policies set out in Note 4 to all periods presented in these financial statements.

(1) Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS 1032)

The Company has adopted amendments to K-IFRS 1032, 'Offsetting Financial Assets and Financial Liabilities' since January 1, 2014. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off. According to the amendments, the right to set off should not be contingent on a future event, and legally enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendments also state that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.

There is no material impact of the application of this amendment on the Company's financial statements.

(2) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to K-IFRS 1036)

The Company has adopted amendments to K-IFRS 1036 'Impairment of Assets' since January 1, 2014. The amendments require the disclosure of information about the recoverable amount of impaired assets, if that amount is based on fair value less costs of disposal.

There is no material impact of the application of this amendment on the Company's financial statements.

(3) Levies (K-IFRS 2121)

The Company has adopted K-IFRS 2121, 'Levies' since January 1, 2014. K-IFRS 2121 is an Interpretation of K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets, on the accounting for levies imposed by governments. K-IFRS 1037 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (or 'obligating event'). K-IFRS 2121 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The interpretation does not provide guidance on the accounting for the costs arising from recognizing the liability to pay a levy. Other K-IFRSs should be applied to determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

There is no material impact of the application of this interpretation on the Company's financial statements.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for the changes in accounting policies as explained in Note 3.

(1) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

(2) Inventories

The cost of inventories is based on the weighted average principle, and includes expenditures for acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Inventories are measured at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(3) Non-derivative financial assets

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(3) Non-derivative financial assets, Continued

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

(v) De-recognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a asset or liability.

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(4) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Hedge accounting

The Company holds currency swaps and other derivative contracts to manage foreign exchange risk. The Company designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(4) Derivative financial instruments, including hedge accounting, Continued

On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the statement of comprehensive income. The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) a instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(5) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

If there is objective evidence that financial instruments are impaired, impairment losses are measured and recognized. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment:

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

(6) Investments in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(6) Investments in associates, Continued

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

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

Upon disposal of an associate that results in the Company losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis we would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate.

When the Company reduces its ownership interest in an associate but the Company continues to use the equity method, the Company reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Company applies K-IFRS 5 to a portion of investment in an associate that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 Financial Instruments: Recognition and Measurement are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 Impairment of Assets by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

The Company recognizes only the portion of gain and loss from transactions with associates depending on its ownership interest.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(7) Property, plant and equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment, except for land, are depreciated over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed on a straight-line basis.

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives of the Company's property, plant and equipment are as follows:

	Useful lives (years)
Buildings and structures	40
Machinery	3 ~ 15
Other property, plant and equipment ("Other PP&E")	4

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(8) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property, except for land, are depreciated on a straight-line basis over 40 years as estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(9) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

The estimated useful lives of the Company's intangible assets are as follows:

	Useful lives (years)
Subscriber lists	5
Cable line usage rights	15, 20
Development costs	2~5
Other intangibles	1~20

Useful lives and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

(i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(10) Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

(11) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from construction contracts, inventories, deferred tax assets, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets ("CGUs"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(12) Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases

At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities in its statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Company reviews to determine whether the leased asset may be impaired.

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a financial lease that it is impracticable to the payments reliably, the Company recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(13) Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability from the statements of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(14) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are expected to be settled beyond 12 months after the end of the annual reporting period in which the employees render the related service. The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(14) Employee benefits, Continued

(iii) Retirement benefits: defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(15) Provisions

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

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is presented as a separate asset.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(15) Provisions, Continued

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision shall be used only for expenditures for which the provision was originally recognized.

(16) Foreign currencies transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(17) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(18) Revenue

Revenue from sale of goods, rendering of services or use of the Company assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

(i) Services

Revenue from telephone services, broadband internet access service and other internet-related services are recognized when the services are rendered.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(18) Revenue, Continued

(ii) Sale of goods

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(19) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(20) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred tax asset for all deductible temporary differences to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(20) Income taxes, Continued

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

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

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. If there are any additional income tax expense incurred in accordance with dividend payments, such income tax expense is recognized when liabilities relating to the dividend payments are recognized.

(21) Earnings per share

The Company presents earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(22) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2014, and the Company has not early adopted them.

Management believes the impact of the amendments on the Company's financial statements is not significant.

(i) K-IFRS 1019 'Employee Benefits' - Employee contributions

Amendments to K-IFRS 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits.

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

5. Restricted Deposits

Deposits which are restricted in use as of December 31, 2014 and 2013 are summarized as follows:

(In thousands of won)

	December 31, 2014	December 31, 2013
Short-term financial instruments	₩	
Deposits for employees' borrowings relating to employee stock ownership	2,071,000	2,784,000
Fund for subcontractors(*)	500,000	500,000
Long-term financial instruments		
Deposits for checking account	8,500	8,500
	₩ <u>2,579,500</u>	<u>3,292,500</u>

(*) The Fund is restricted in use for financial supports to the Company's subcontractors.

6. Trade and Other Receivables

(1) Details of trade and other receivables as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014	
	Gross amount	Allowances for impairment	Carrying amount
Current assets:			
Accounts receivable - trade	₩ 477,139,340	(82,315,299)	394,824,041
Short-term loans	4,068,055	-	4,068,055
Accounts receivable - other	8,216,708	(3,988,572)	4,228,136
Accrued income	28,895	-	28,895
	<u>489,452,998</u>	<u>(86,303,871)</u>	<u>403,149,127</u>
Non-current assets:			
Long-term trade receivables	12,601,767	-	12,601,767
Long-term loans	11,447,510	-	11,447,510
Guarantee deposits	51,586,908	-	51,586,908
	<u>75,636,185</u>	<u>-</u>	<u>75,636,185</u>
	₩ <u>565,089,183</u>	<u>(86,303,871)</u>	<u>478,785,312</u>

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

6. Trade and Other Receivables, Continued

(In thousands of won)

		December 31, 2013		
		Gross amount	Allowances for impairment	Carrying amount
Current assets:				
Accounts receivable - trade	₩	493,360,259	(79,339,674)	414,020,585
Short-term loans		4,218,758	-	4,218,758
Accounts receivable - other		7,286,519	(3,437,124)	3,849,395
Accrued income		107,057	-	107,057
		<u>504,972,593</u>	<u>(82,776,798)</u>	<u>422,195,795</u>
Non-current assets:				
Long-term trade receivables		13,154,051	-	13,154,051
Long-term loans		11,206,473	-	11,206,473
Guarantee deposits		48,537,438	-	48,537,438
		<u>72,897,962</u>	<u>-</u>	<u>72,897,962</u>
	₩	<u>577,870,555</u>	<u>(82,776,798)</u>	<u>495,093,757</u>

- (2) The movement in allowance for doubtful accounts of trade and other receivables during the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

		2014	2013
Balance at January 1	₩	82,776,798	79,510,812
Increase of bad debt allowances		14,379,880	17,791,926
Write-offs		(17,731,553)	(20,462,817)
Collection of receivables previously written-off		6,878,746	5,936,877
Balance at December 31	₩	<u>86,303,871</u>	<u>82,776,798</u>

- (3) Details of overdue but not impaired, and impaired trade and other receivable as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014		December 31, 2013	
		Accounts receivable - trade	Other receivables	Accounts receivable - trade	Other receivables
Neither overdue nor impaired	₩	224,864,182	71,359,504	201,001,966	67,919,121
Overdue but not impaired		-	-	-	-
Impaired		<u>264,876,925</u>	<u>3,988,572</u>	<u>305,512,344</u>	<u>3,437,124</u>
		<u>489,741,107</u>	<u>75,348,076</u>	<u>506,514,310</u>	<u>71,356,245</u>
Allowances for doubtful accounts		<u>(82,315,299)</u>	<u>(3,988,572)</u>	<u>(79,339,674)</u>	<u>(3,437,124)</u>
	₩	<u>407,425,808</u>	<u>71,359,504</u>	<u>427,174,636</u>	<u>67,919,121</u>

The Company establishes allowances for doubtful accounts based on the likelihood of recoverability of trade and other receivables based on their aging at the end of the period, past customer default experience, customer credit status, and economic and industrial factors.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

7. Inventories

Details of inventories as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014	December 31, 2013
Merchandise:			
Acquisition cost	₩	11,182,680	26,459,580
Inventory valuation reserve		-	(1,686,756)
Carrying value	₩	<u>11,182,680</u>	<u>24,772,824</u>

8. Long-term Investment Securities

(1) Details of long-term available-for-sale financial assets as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014	December 31, 2013
Equity securities:			
Unlisted equity securities	₩	813,456	813,456
Equity investments (*)		5,200,325	11,847,947
Long-term investment securities	₩	<u>6,013,781</u>	<u>12,661,403</u>

(*) The Company holds 100% interest of SKB Anonymous association, which has the carrying values of ₩5,000 million and ₩11,114 million as of December 31, 2014 and 2013, respectively. SKB Anonymous association operates its capital by investing in SKB SPC and all of SKB SPC's shares are owned by SBS as general partner. Since the operating policy of SKB SPC is determined by the general partner, the Company is not able to exercise significant influence over its operating policy. Accordingly, the Company's investment in SKB Anonymous association was measured at cost as its fair value cannot be reliably estimated.

The Company recognized impairment losses of ₩6,144 million and ₩13,205 million for long-term investment securities during the years ended December 31, 2014 and 2013, respectively.

(2) Changes in unrealized gain (loss) on available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

		2014		
		Beginning balance	Changes in valuation	Ending balance
Unrealized loss	₩	-	-	-

(In thousands of won)

		2013		
		Beginning balance	Changes in valuation	Ending balance
Unrealized loss	₩	(930,696)	-	930,696

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

9. Investments in Associates

(1) Details of investments in associates as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

December 31, 2014					
	Number of shares	Ownership percentage (%)	Acquisition cost	Net asset value	Carrying value
SSV-Digital Culture Contents Investment Association(*)	50	19.92	₩ 5,000,000	2,545,536	2,545,536
SSV Movie Investment Association	135	46.55	13,500,000	17,378,234	17,378,234
Daekyo Majestic Contents Korea Fund (*)	45	18.00	4,500,000	4,496,245	4,496,245
			₩ 23,000,000	24,420,015	24,420,015

(In thousands of won)

December 31, 2013					
	Number of shares	Ownership percentage (%)	Acquisition cost	Net asset value	Carrying value
SSV-Digital Culture Contents Investment Association(*)	50	19.92	₩ 5,000,000	3,293,177	3,293,177
SSV Movie Investment Association	135	46.55	13,500,000	16,121,405	16,121,405
Hanhwa 2nd Daigy Culture Contents Investment Association	200	20.00	2,000,000	662,754	662,754
			₩ 20,500,000	20,077,336	20,077,336

(*) Although the Company hold less than 20% of interest in these investments, these investments are accounted for using the equity method, as the Company is able to exercise significant influence over its operating policy by participating in the associate's Investment Deliberation Committee.

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

9. Investments in Associates, Continued

(2) Changes in investments in associates for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

		2014				
		Beginning balance	Acquisition	Disposal	Gain (loss)	Ending balance
SSV-Digital Culture Contents Investment Association	₩	3,293,177	-	-	(747,641)	2,545,536
SSV Movie Investment Association		16,121,405	-	-	1,256,829	17,378,234
Hanhwa 2nd Daigy Culture Contents Investment Association		662,754	-	(669,962)	7,208	-
Daekyo Majestic Contents Korea Fund		-	4,500,000	-	(3,755)	4,496,245
	₩	<u>20,077,336</u>	<u>4,500,000</u>	<u>(669,962)</u>	<u>512,641</u>	<u>24,420,015</u>

(In thousands of won)

		2013				
		Beginning balance	Acquisition	Disposal	Gain (loss)	Ending balance
IBK BMC-Culture Contents Investment Association	₩	1,752,575	-	(1,966,720)	214,145	-
SSV-Digital Culture Contents Investment Association		3,274,472	-	-	18,705	3,293,177
SSV Movie Investment Association		17,114,332	-	-	(992,927)	16,121,405
Hanhwa 2nd Daigy Culture Contents Investment Association		655,186	-	-	7,568	662,754
	₩	<u>22,796,565</u>	<u>-</u>	<u>(1,966,720)</u>	<u>(752,509)</u>	<u>20,077,336</u>

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

9. Investments in Associates, Continued

(3) The key financial information of associates as of and for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

		2014			
		Assets	Liabilities	Operating revenue	Net income (loss)
SSV-Digital Culture Contents Investment Association	₩	12,778,589	-	259,390	(3,755,208)
SSV Movie Investment Association		37,331,021	-	4,864,870	2,702,714
Daekyo Majestic Contents Korea Fund		24,979,138	-	136,464	(20,862)

(In thousands of won)

		2013			
		Assets	Liabilities	Operating revenue	Net income (loss)
SSV-Digital Culture Contents Investment Association	₩	16,625,499	93,752	486,429	93,894
SSV Movie Investment Association		34,786,726	155,559	1,435,379	(2,131,953)
Hanhwa 2nd Daigy Culture Contents Investment Association		3,582,129	268,359	325,225	37,845

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

9. Investments in Associates, Continued

- (4) Adjustments from associates' net assets to carrying amount of investment in associates as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014			
		Associates' net asset(A)	Ownership interests(B)	Ownership net asset(AxB)	Carrying amount
SSV-Digital Culture Contents Investment Association	₩	12,778,589	19.92%	₩ 2,545,536	2,545,536
SSV Movie Investment Association		37,331,021	46.55%	17,378,234	17,378,234
Daekyo Majestic Contents Korea Fund		24,979,138	18.00%	4,496,245	4,496,245
				₩ <u>24,420,015</u>	<u>24,420,015</u>

(In thousands of won)

		December 31, 2013			
		Associates' net asset(A)	Ownership interests(B)	Ownership net asset(AxB)	Carrying amount
SSV-Digital Culture Contents Investment Association	₩	16,531,747	19.92%	₩ 3,293,177	3,293,177
SSV Movie Investment Association		34,631,167	46.55%	16,121,405	16,121,405
Hanhwa 2nd Daigy Culture Contents Investment Association		3,313,770	20.00%	662,754	662,754
				₩ <u>20,077,336</u>	<u>20,077,336</u>

SK BROADBAND CO., LTD.
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For the years ended December 31, 2014 and 2013

10. Property and Equipment

(1) Property and equipment as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014			
		Acquisition cost	Accumulated depreciation	Accumulated impairment	Carrying amount
Land	₩	167,511,913	-	-	167,511,913
Buildings		350,067,500	(124,025,605)	-	226,041,895
Structures		239,962	(71,711)	-	168,251
Machinery		6,068,429,609	(4,172,126,095)	(1,432,666)	1,894,870,848
Vehicles		1,456,933	(1,258,343)	-	198,590
Other		68,985,334	(60,604,575)	-	8,380,759
Construction in progress		20,084,660	-	-	20,084,660
	₩	<u>6,676,775,911</u>	<u>(4,358,086,329)</u>	<u>(1,432,666)</u>	<u>2,317,256,916</u>

(In thousands of won)

		December 31, 2013			
		Acquisition cost	Accumulated depreciation	Accumulated impairment	Carrying amount
Land	₩	167,103,350	-	-	167,103,350
Buildings		349,679,636	(114,231,356)	-	235,448,280
Structures		239,962	(65,602)	-	174,360
Machinery		5,656,508,926	(3,901,271,728)	(1,698,293)	1,753,538,905
Vehicles		1,456,933	(1,049,805)	-	407,128
Other		67,916,718	(57,734,739)	-	10,181,979
Construction in progress		24,595,494	-	-	24,595,494
	₩	<u>6,267,501,019</u>	<u>(4,074,353,230)</u>	<u>(1,698,293)</u>	<u>2,191,449,496</u>

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

10. Property and Equipment, Continued

- (2) Details of changes in property and equipment for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

		2014				
		Beginning balance	Acquisition	Disposal	Transfer	Ending balance
Land	₩	167,103,350	-	-	408,563	167,511,913
Buildings		235,448,280	105,284	-	174,056	226,041,895
Structures		174,360	-	-	-	168,251
Machinery		1,753,538,905	323,424,591	(4,553,524)	254,960,046	1,894,870,848
Vehicles		407,128	-	-	-	198,590
Other		10,181,979	2,984,632	(8,029)	-	8,380,759
Construction in progress		24,595,494	273,621,156	-	(278,131,990)	20,084,660
	₩	<u>2,191,449,496</u>	<u>600,135,663</u>	<u>(4,561,553)</u>	<u>(22,589,325)</u>	<u>2,317,256,916</u>

(In thousands of won)

		2013				
		Beginning balance	Acquisition	Disposal	Transfer	Ending balance
Land	₩	166,523,766	-	(180,129)	759,713	167,103,350
Buildings		235,914,830	161,384	(37,187)	8,890,501	235,448,280
Structures		132,398	47,660	-	-	174,360
Machinery		1,622,245,022	336,511,336	(5,800,130)	212,946,037	1,753,538,905
Vehicles		687,244	-	-	-	407,128
Other		9,637,954	5,597,026	(6,820)	656,761	10,181,979
Construction in progress		21,388,333	132,879,903	-	(129,672,742)	24,595,494
	₩	<u>2,056,529,547</u>	<u>475,197,309</u>	<u>(6,024,266)</u>	<u>93,580,270</u>	<u>2,191,449,496</u>

The Company recorded ₩2,628 million and ₩4,094 million of loss on abandonment of property and equipment as other non-operating expenses for the years ended December 31, 2014 and 2013, respectively, due to discontinuance of services, decrease of customer demands and deteriorations of conditions of certain machinery.

- (3) Depreciable assets are insured for fire and other casualty losses up to ₩1,252,671 million as of December 31, 2014. In addition, the Company carries car insurance policies, occupational health and safety insurance policies for employees, and commercial liability insurance policies.
- (4) The Company has entered into finance lease agreements for communication related equipments. The net book values of leased equipments as of December 31, 2014 and 2013 are ₩21,278 million and ₩26,707 million, respectively.

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

11. Investment property

(1) Investment property as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014		
		Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩	16,715,431	-	16,715,431
Buildings		13,014,681	(5,121,663)	7,893,018
	₩	29,730,112	(5,121,663)	24,608,449

(In thousands of won)

		December 31, 2013		
		Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩	17,123,994	-	17,123,994
Buildings		13,297,261	(4,817,742)	8,479,519
	₩	30,421,255	(4,817,742)	25,603,513

(2) Details of changes in investment property for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

		2014				
		Beginning balance	Acquisition	Disposal	Transfer	Ending balance
Land	₩	17,123,994	-	-	(408,563)	16,715,431
Buildings		8,479,519	-	-	(174,056)	7,893,018
	₩	25,603,513	-	-	(582,619)	24,608,449

(In thousands of won)

		2013				
		Beginning balance	Acquisition	Disposal	Transfer	Ending balance
Land	₩	17,883,707	-	-	(759,713)	17,123,994
Buildings		17,891,229	-	-	(8,800,501)	8,479,519
	₩	35,774,936	-	-	(9,560,214)	25,603,513

(3) Fair value information of investment property as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014		December 31, 2013	
		Carrying value	Fair value	Carrying value	Fair value
Land	₩	16,715,431	13,782,281	17,123,994	14,075,038
Buildings		7,893,018	8,663,177	8,479,519	9,017,372
	₩	24,608,449	22,445,458	25,603,513	23,092,410

SK BROADBAND CO., LTD.
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For the years ended December 31, 2014 and 2013

11. Investment property, Continued

- (4) Details of income and expenses incurred for investment property for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

		2014		2013
Rental income(*)	₩	1,689,770	₩	1,373,428
Operating expenses		412,445		475,957

- (*) Income and expenses related to investment property are recorded as operating revenue and operating expenses in the statements of income.

12. Intangible Assets

- (1) Intangible assets as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

December 31, 2014					
		Acquisition cost	Accumulated amortization	Accumulated impairment	Carrying amount
Subscriber lists	₩	126,446,098	(122,934,198)	-	3,511,900
Cable line usage rights		97,428,631	(61,791,222)	-	35,637,409
Development costs		23,114,955	(18,531,527)	-	4,583,428
Memberships		8,148,750	-	-	8,148,750
License		45,000,000	-	-	45,000,000
Other intangibles		221,160,030	(139,601,020)	-	81,559,010
	₩	521,298,464	(342,857,967)	-	178,440,497

(In thousands of won)

December 31, 2013					
		Acquisition cost	Accumulated amortization	Accumulated impairment	Carrying amount
Subscriber lists	₩	125,589,038	(120,704,932)	-	4,884,106
Cable line usage rights		97,428,631	(56,114,496)	-	41,314,135
Development costs		23,114,955	(15,485,015)	-	7,629,940
Memberships		6,238,935	-	-	6,238,935
License		45,000,000	-	-	45,000,000
Other intangibles		175,283,839	(108,660,414)	-	66,623,425
	₩	472,655,398	(300,964,857)	-	171,690,541

SK BROADBAND CO., LTD.
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For the years ended December 31, 2014 and 2013

12. Intangible Assets, Continued

(2) Details of changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

		2014				
		Beginning balance	Acquisition	Disposal	Transfer	Ending balance
Subscriber lists	₩	4,884,106	1,075,249	(218,189)	-	3,511,900
Cable line usage rights		41,314,135	-	-	-	35,637,409
Development costs		7,629,940	-	-	-	4,583,428
Memberships		6,238,935	4,839,250	(2,929,435)	-	8,148,750
License		45,000,000	-	-	-	45,000,000
Other intangibles		66,623,425	8,118,923	-	37,757,268	81,559,010
	₩	<u>171,690,541</u>	<u>14,033,422</u>	<u>(3,147,624)</u>	<u>37,757,268</u>	<u>178,440,497</u>

(In thousands of won)

		2013				
		Beginning balance	Acquisition	Disposal	Transfer	Ending balance
Subscriber lists	₩	6,173,431	768,082	-	-	4,884,106
Cable line usage rights		46,990,861	-	-	-	41,314,135
Development costs		10,644,497	330,972	-	-	7,629,940
Memberships		5,937,735	313,200	(12,000)	-	6,238,935
License		45,000,000	-	-	-	45,000,000
Other intangibles		56,844,389	10,074,565	-	27,441,106	66,623,425
	₩	<u>171,590,913</u>	<u>11,486,819</u>	<u>(12,000)</u>	<u>27,441,106</u>	<u>171,690,541</u>

Memberships and license are classified as intangible assets that have indefinite useful lives and they are not amortized.

(3) No research and development expenses were recognized in 2014 or 2013.

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For the years ended December 31, 2014 and 2013

12. Intangible Assets, Continued

(4) Individually significant intangible assets as of December 31, 2014 are as follows:

(In thousands of won)

	Description	Amount	Remaining useful lives
Subscriber lists	Customer relationship	₩ 3,511,900	1 ~ 5
Cable line usage rights	Submarine cable for international transmission line	3,208,418	5
	C2C cable 155M	3,059,797	7
	APCN2's 2MIU	5,422,117	7
	Korea-US international internet backbone network	3,011,512	12
Memberships	Golf and condo membership	8,148,750	Indefinite
License	Local phone service right	45,000,000	Indefinite
Other intangibles	B-box intangible asset	7,736,233	5
	New marketing system plan	5,609,710	2
	U-key improvement and development	3,658,167	4
	System improvement and development	6,529,333	5
	Btv broadcasting publication and caption right	2,239,641	1 ~ 5

13. Other Assets

Details of other assets as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

	December 31, 2014	December 31, 2013
Current Assets:	₩	
Advanced payments	13,388	12,657
Short-term prepaid expenses	26,060,672	14,224,006
Others	1,047,331	8,549,623
	₩ <u>27,121,391</u>	<u>22,786,286</u>
Non-current Assets:		
Long-term prepaid expenses	₩ 17,536,195	7,813,493

SK BROADBAND CO., LTD.
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For the years ended December 31, 2014 and 2013

14. Borrowings and Debentures

(1) Short-term borrowings as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

Financial institution	Annual interest rate (%)		December 31, 2014	December 31, 2013
CP				
HI Investment & Securities	2.16	₩	31,000,000	-
Woori Investment Bank	2.29		30,000,000	-
Korea Exchange Bank	2.29		10,000,000	-
		₩	<u>71,000,000</u>	<u>-</u>

(2) Long-term borrowings as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

Lender	Annual interest rate (%)	Maturity		December 31, 2014	December 31, 2013
Korea Development Bank	3.22	2014.06.16	₩	-	1,647,500
Shinhan Bank	2.77	2015.06.15		1,712,160	5,136,480
Kookmin Bank	2.77	2016.06.15		4,874,460	8,124,100
Kookmin Bank	2.77	2017.03.15		4,496,940	5,996,000
Kookmin Bank	2.77	2018.03.15		8,600,000	8,600,000
Korea Development Bank	3.32	2019.07.30		39,000,000	-
Korea Development Bank	2.94	2019.07.30		10,000,000	-
				<u>68,683,560</u>	<u>29,504,080</u>
Less current portion of long-term borrowings				(9,110,500)	(9,820,520)
			₩	<u>59,573,060</u>	<u>19,683,560</u>

SK BROADBAND CO., LTD.
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For the years ended December 31, 2014 and 2013

14. Borrowings and Debentures, Continued

(3) Debentures as of December 31, 2014 and 2013 are as follows:

(In thousands of won, thousands of U.S. dollars)

	Maturity	Annual interest rate (%)		December 31, 2014	December 31, 2013
34th Information promotion fund	2014.04.01	4.53	₩	-	290,000,000
35th Information promotion fund	2014.09.30	4.40		-	100,000,000
36-1th Information promotion fund	2015.01.19	4.09		110,000,000	110,000,000
36-2th Information promotion fund	2015.07.20	4.14		110,000,000	110,000,000
36-3th Information promotion fund	2017.01.19	4.28		100,000,000	100,000,000
37-1th Information promotion fund	2015.10.12	3.14		130,000,000	130,000,000
37-2th Information promotion fund	2017.10.12	3.27		120,000,000	120,000,000
38-1th Information promotion fund	2016.10.02	3.05		80,000,000	-
38-2th Information promotion fund	2019.04.02	3.49		210,000,000	-
39th Information promotion fund	2019.09.29	2.76		130,000,000	-
Global bond(*)	2018.10.26	2.88		329,760,000	316,590,000
				<u>1,319,760,000</u>	<u>1,276,590,000</u>
Less discounts on bonds				(5,885,011)	(6,010,654)
				<u>1,313,874,989</u>	<u>1,270,579,346</u>
Less current portion of bonds				(350,000,000)	(390,000,000)
Less current portion of discounts of bonds				230,982	242,273
			₩	<u>964,105,971</u>	<u>880,821,619</u>

(*) The Company issued Global bond (principal amount USD 300,000,000) and entered into fixed-to-fixed currency swap contracts with Korea Development Bank (KDB) and other banks to hedge the foreign currency risk. (Note 18)

(4) The repayment schedule of long-term borrowings and debentures as of December 31, 2014 is as follows:

(In thousands of won)

		Long-term borrowings	Bonds payable in local currency	Bonds payable in foreign currency		Total
				USD	Won equivalents	
Within 1 year	₩	9,110,500	350,000,000	-	-	359,110,500
1~3 years		30,273,090	300,000,000	-	-	330,273,090
3~5 years		29,299,970	340,000,000	300,000,000	329,760,000	699,059,970
	₩	<u>68,683,560</u>	<u>990,000,000</u>	<u>300,000,000</u>	<u>329,760,000</u>	<u>1,388,443,560</u>

SK BROADBAND CO., LTD.
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For the years ended December 31, 2014 and 2013

15. Other Financial Liabilities

(1) Details of other financial liabilities as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014	December 31, 2013
Lease Liabilities:			
Current portion of finance lease liabilities	₩	3,206,097	18,829,664
Long-term finance lease liabilities		-	3,206,097
	₩	<u>3,206,097</u>	<u>22,035,761</u>

(2) Finance Leases

The Company has entered into finance lease arrangements with Cisco Systems Capital Korea Ltd. for certain machinery and equipment. The future lease payments under finance lease arrangements as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014			December 31, 2013		
		Minimum lease payments	Interest expense	Present value	Minimum lease payments	Interest expense	Present value
Within 1 year	₩	3,286,158	80,061	3,206,097	19,457,873	628,209	18,829,664
1-5 years		-	-	-	3,286,158	80,061	3,206,097
	₩	<u>3,286,158</u>	<u>80,061</u>	<u>3,206,097</u>	<u>22,744,031</u>	<u>708,270</u>	<u>22,035,761</u>

(3) Operating Leases

The Company leases vehicles under operating lease arrangements with Kumho Rent A Car Co., Ltd. and others. The future lease payments under operating leases as of December 31, 2014 are as follows:

(In thousands of won)

	Amount
Within 1 year	₩ 789,710
1-3 years	₩ 743,860
	<u>₩ 1,533,570</u>

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16. Other Liabilities

Details of other liabilities as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014	December 31, 2013
Current Assets:			
Short-term advanced receipts	₩	14,991,152	12,072,191
Non-current Assets:			
Long-term advanced receipts		2,694,900	4,097,822
Long-term employee benefits(*)		6,365,864	6,576,402
		9,060,764	10,674,224
	₩	24,051,916	22,746,415

(*) Long-term employee benefits represent vested long-service leave entitlements accrued and other compensation to employees.

17. Provisions

The Company has leased a number of lands, buildings and structures to establish infrastructure to provide nation-wide fixed-line telecommunication services and has obligations to restore these sites to their original conditions. Accordingly, the Company recognizes provisions for restoration at the present value of expenditures expected to be required for removal, dissolution or restoration of leased lands, buildings and structures.

Change in provisions for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

For the year ended December 31, 2014						As of December 31, 2014	
	Beginning balance	Increase	Utilization	Unwinding of interest	Ending balance	Current	Non- current
Provision for restoration	₩ 3,597,643	-	(141,036)	75,821	3,532,428	-	3,532,428

(In thousands of won)

For the year ended December 31, 2013						As of December 31, 2013	
	Beginning balance	Increase	Utilization	Unwinding of interest	Ending balance	Current	Non- current
Provision for restoration	₩ 3,252,948	428,761	(226,771)	142,705	3,597,643	-	3,597,643

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

18. Derivative Instruments

With reference to the Company's issuance of the Global bond (principal amount: USD 300,000,000), the Company entered into fixed-to-fixed currency swap contracts with Korea Development Bank (KDB) and other banks to hedge the foreign currency risk.

Details of derivative contracts of the Company as of December 31, 2014 are presented as follows:

(In thousands of won, thousands of U.S. dollars)

	<u>Contract Period</u>	<u>Interest Rate</u>	<u>Principal amount</u>	<u>Accumulated valuation loss on derivatives</u>	<u>Accumulated foreign currency translation gain</u>	<u>Derivative assets</u>
KDB and others	Oct.29, 2013 ~ Oct.29, 2018	3.60~3.62	USD 300,000	(8,895,076)	11,201,680	2,306,604

19. Defined Benefit Liabilities

(1) Details of defined benefit liabilities as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		<u>December 31, 2014</u>	<u>December 31, 2013</u>
Present value of defined benefit obligations	₩	49,978,878	34,084,166
Fair value of plan assets		-	-
	₩	<u>49,978,878</u>	<u>34,084,166</u>

(2) Principal actuarial assumptions as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Discount rate	3.26%	4.31%
Expected rate of salary increase	5.73%	5.67%

(3) Changes in defined benefit obligations for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

		<u>2014</u>	<u>2013</u>
Beginning balance	₩	34,084,166	29,324,704
Current service cost		13,224,991	13,168,204
Interest cost		1,591,172	1,114,629
Remeasurement			
- Demographic assumption		3,273,490	(896,873)
- Financial assumption		5,368,737	(2,911,967)
- Adjustment based on experience		(6,084,705)	(2,523,548)
Benefit paid		(2,860,925)	(3,854,438)
Others(*)		1,381,952	663,455
Ending balance	₩	<u>49,978,878</u>	<u>34,084,166</u>

(*) Others for the years ended December 31, 2014 and 2013 include transfer to construction in progress and liabilities succeeded in relation to transfer of executives and employees from affiliates.

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

19. Defined Benefit Liabilities, Continued

- (4) Expenses recognized in profit and loss for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Current service cost	₩ 13,224,991	13,168,204
Net Interest cost	1,591,172	1,114,629
	<u>₩ 14,816,163</u>	<u>14,282,833</u>

- (5) As of December 31, 2014, effects on defined benefit obligations if each of significant actuarial assumptions changes within expectable and reasonable range are as follows:

(In thousands of won)

	Increase	Decrease
Discount rate (if changed by 1%)	₩ (5,005,419)	5,836,296
Expected rate of salary increase (if changed by 1%)	5,796,598	(5,066,068)

The sensitivity analysis does not consider dispersion of all cash flows that are expected from the plan, and provides approximate values of sensitivity for the assumptions used.

Weighted average durations of defined benefit obligations as of December 31, 2014 and 2013 are 12.37 years and 13.84 years, respectively.

20. Share Capital and Capital Surplus and Other Capital Adjustments

The Company has authorized 700,000,000 common shares with a par value of ₩5,000. The number of issued and outstanding common shares, capital surplus and other capital adjustments as of December 31, 2014 and 2013 are as follows:

(In thousands of won, except for share data)

	December 31, 2014	December 31, 2013
Issued shares	295,959,087	295,959,087
Share capital - Common stock	₩ 1,479,795,435	1,479,795,435
Capital surplus and other capital adjustments:		
Paid-in surplus	360,042,663	360,042,663
Others	(45,853,554)	(50,616,858)
Share-based compensation	-	4,763,304
	<u>₩ 314,189,109</u>	<u>314,189,109</u>

SK BROADBAND CO., LTD.
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21. Reserves

(1) Details of reserves as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

	December 31, 2014	December 31, 2013
Unrealized changes in fair value of derivatives ₩	(8,895,076)	(1,128,432)

(2) Details of unrealized changes in fair value of available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Beginning balance ₩	-	(930,696)
Amount recognized as other comprehensive income during the year	-	-
Amount reclassified to profit or loss	-	930,696
Ending balance ₩	-	-

(3) Details of unrealized changes in fair value of derivatives for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Beginning balance ₩	(1,128,432)	-
Amount recognized as other comprehensive income during the year	(7,766,644)	(1,128,432)
Amount reclassified to profit or loss	-	-
Ending balance ₩	(8,895,076)	(1,128,432)

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Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

22. Statements of Disposition of Deficit

Details of dispositions of accumulated deficit for the years ended December 31, 2014 and 2013 are as follows:

Date of disposition for 2014: March 20, 2015

Date of disposition for 2013: March 21, 2014

(In thousands of won)

		2014	2013
Undisposed accumulated deficit			
Undisposed accumulated deficit	₩	665,227,885	683,866,221
Remeasurement of defined benefit liabilities		2,557,522	(6,332,388)
Profit		(4,307,494)	(12,305,948)
		<u>663,477,913</u>	<u>665,227,885</u>
Disposition of accumulated deficit		<u>-</u>	<u>-</u>
Undisposed accumulated deficit to be carried over to subsequent year	₩	<u>663,477,913</u>	<u>665,227,885</u>

23. Other Operating Expenses

Details of other operating expenses for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

		2014	2013
Other Operating Expenses:			
Rent	₩	28,642,767	26,561,240
Outsourcing services expenses		11,197,265	9,637,201
Taxes and dues		8,010,458	7,663,413
Travel expenses		2,991,326	3,168,661
Communication expenses		6,242,702	7,132,549
Training		2,199,797	1,961,909
Vehicle maintenance expenses		2,132,711	2,333,457
Other		10,211,898	11,788,318
	₩	<u>71,628,924</u>	<u>70,246,748</u>

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24. Finance Income and Costs

(1) Details of finance income and costs for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Finance Income:		
Interest income	₩ 5,341,541	8,045,764
Gain on foreign currency translations	1,901,050	2,448,682
Gain on foreign currency transactions	664,706	341,090
Dividends	500	500
Gain on disposal of long-term investment securities	-	162,366
Gain on valuation of derivatives	13,031,680	-
	<u>₩ 20,939,477</u>	<u>10,998,402</u>

(In thousands of won)

	2014	2013
Finance Costs:		
Interest expense	₩ 53,894,202	54,377,530
Loss on foreign currency translations	15,037,875	631,219
Loss on foreign currency transactions	702,824	1,203,669
Loss on valuation of derivatives	-	1,830,000
Loss on disposal of long-term investment securities	-	662,500
Loss on impairment of long-term investment securities	6,113,812	13,204,843
	<u>₩ 75,748,713</u>	<u>71,909,761</u>

(2) Details of interest income included in finance income for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Interest income on cash equivalents and financial instruments	₩ 2,152,068	4,509,024
Interest income on long-term trade and other receivables	3,183,497	3,527,422
Others	5,976	9,318
	<u>₩ 5,341,541</u>	<u>8,045,764</u>

(3) Details of interest expense included in finance costs for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Interest expense on borrowings	₩ 3,483,864	4,825,587
Interest expense on debentures	49,655,308	47,837,540
Interest expense on lease liabilities	503,688	1,333,033
Others	251,342	381,370
	<u>₩ 53,894,202</u>	<u>54,377,530</u>

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24. Finance Income and Costs, Continued

(4) Finance income and costs by categories of financial instruments for the years ended December 31, 2014 and 2013 are as follows:

(i) Finance income and costs

(In thousands of won)

	2014		2013	
	Finance income	Finance costs	Finance income	Finance costs
Financial Assets:				
Loans and receivables	₩ 7,251,021	135,470	8,095,730	1,171,782
Available-for-sale financial assets	500	6,113,812	162,866	13,867,343
Derivative designated as hedging instrument	13,031,680	-	-	-
	<u>20,283,201</u>	<u>6,249,282</u>	<u>8,258,596</u>	<u>15,039,125</u>
Financial Liabilities:				
Accounts payable - other	517,956	2,686,571	909,806	1,020,603
Financial liability measured as amortized cost (except accounts payable - other)	138,320	66,812,860	1,830,000	54,020,033
Derivative designated as hedging instrument	-	-	-	1,830,000
	<u>656,276</u>	<u>69,499,431</u>	<u>2,739,806</u>	<u>56,870,636</u>
	<u>₩ 20,939,477</u>	<u>75,748,713</u>	<u>10,998,402</u>	<u>71,909,761</u>

(ii) Other comprehensive income (loss)

(In thousands of won)

	2014	2013
Financial Assets:		
Available-for-sale financial assets	₩ -	930,696
Derivative designated as hedging instrument	(7,766,644)	-
	<u>(7,766,644)</u>	<u>930,696</u>
Financial Liabilities:		
Derivative designated as hedging instrument	-	(1,128,432)
	<u>₩ (7,766,644)</u>	<u>(197,736)</u>

(5) Details of impairment losses for financial assets for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Available-for-sale financial assets	₩ 6,113,812	13,204,843
Bad debt for accounts receivable - trade	13,828,432	17,798,011
Bad debt for accounts receivable - other	551,448	(6,085)
	<u>₩ 20,493,692</u>	<u>30,996,769</u>

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For the years ended December 31, 2014 and 2013

25. Other Non-operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Other Non-operating Income:		
Gain on disposal of property and equipment and intangible assets	₩ 3,015,157	4,854,488
Others	9,488,846	10,111,138
	<u>₩ 12,504,003</u>	<u>14,965,626</u>
Other Non-operating Expenses:		
Loss on disposals of lease assets	₩ 362,660	1,921,789
Loss on disposal of property and equipment and intangible assets	69,497	42,007
Loss on disuse of property and equipment	2,628,267	4,093,854
Donations	183,822	930,737
Others	8,533,947	7,231,336
	<u>₩ 11,778,193</u>	<u>14,219,723</u>

26. Income Tax Expense

(1) Income tax expenses for the years ended December 31, 2014 and 2013 consist of the following:

(In thousands of won)

	2014	2013
Current taxes	-	-
Deferred taxes	-	-
Income tax expense	<u>₩ -</u>	<u>-</u>

(2) The difference between income taxes computed using the statutory corporate income tax rates and the recorded income taxes for the years ended December 31, 2014 and 2013 is attributable to the following:

(In thousands of won)

	2014	2013
Profit before income tax	₩ 4,307,494	12,305,948
Tax calculated at statutory tax rate	925,649	2,685,308
Tax effect of:		
Non-deductible expenses	552,002	715,445
Recognition of previously unrecognized tax losses	(7,319,280)	(5,851,961)
Others (unrecognized deferred tax, etc.)	5,841,629	2,451,208
	<u>(925,649)</u>	<u>(2,685,308)</u>
Income tax expense	<u>₩ -</u>	<u>-</u>

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26. Income Tax Expense, Continued

- (3) Details of deferred tax assets which were not recognized due to the uncertainty of realization as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Deductible temporary differences	₩ 62,617,062	44,155,371
Tax loss carryforwards	95,840,536	106,869,983
	<u>₩ 158,457,598</u>	<u>151,025,354</u>

- (4) The expirations of tax loss carryforwards which are not recognized as deferred tax asset as of December 31, 2014 are as follows:

(In thousands of won)

	Tax loss carryforwards
More than 3 years	₩ 435,638,798

27. Earnings per Share

- (1) Basic earnings per share

Basic earnings per share for the years ended December 31, 2014 and 2013 are calculated as follows:

(In thousands of won, shares)

	2014	2013
Profit for the year	₩ 4,307,494	12,305,948
Weighted average number of common shares outstanding	295,959,087	295,959,087
Basic earnings per share (In won)	<u>₩ 15</u>	<u>42</u>

- (2) Since the Company has not issued any financial instruments that may have dilutive effects, the diluted income per share has not been presented.

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28. Categories of Financial Instruments

(1) Financial assets by categories as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

December 31, 2014				
	Available-for-sale financial assets	Loans and receivables	Derivative financial instruments designated as hedged item	Total
Cash and cash equivalents	₩ -	20,462,661	-	20,462,661
Financial instruments	-	2,579,500	-	2,579,500
Long-term investment securities	6,013,781	-	-	6,013,781
Trade and other receivables				
Accounts receivable – trade	-	407,425,808	-	407,425,808
Loans	-	15,515,565	-	15,515,565
Accounts receivable - other	-	4,228,136	-	4,228,136
Accrued income	-	28,895	-	28,895
Guarantee deposits	-	51,586,908	-	51,586,908
Derivative financial assets	-	-	2,306,604	2,306,604
	₩ <u>6,013,781</u>	<u>501,827,473</u>	<u>2,306,604</u>	<u>510,147,858</u>

(In thousands of won)

December 31, 2013				
	Available-for-sale financial assets	Loans and receivables	Derivative financial instruments designated as hedged item	Total
Cash and cash equivalents	₩ -	68,234,682	-	68,234,682
Financial instruments	-	3,292,500	-	3,292,500
Long-term investment securities	12,661,403	-	-	12,661,403
Trade and other receivables				
Accounts receivable - trade	-	427,174,636	-	427,174,636
Loans	-	15,425,231	-	15,425,231
Accounts receivable - other	-	3,849,395	-	3,849,395
Accrued income	-	107,057	-	107,057
Guarantee deposits	-	48,537,438	-	48,537,438
	₩ <u>12,661,403</u>	<u>566,620,939</u>	<u>-</u>	<u>579,282,342</u>

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28. Categories of Financial Instruments, Continued

(2) Financial liabilities by categories as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

December 31, 2014			
	Financial liabilities measured at amortized cost	Derivative financial instruments designated as hedged item	Total
Accounts payable - other	₩		
Other payable	216,494,254	-	216,494,254
Withholdings	29,822,527	-	29,822,527
Accrued expenses	190,613,230	-	190,613,230
Deposits received	18,168,959	-	18,168,959
Borrowings	139,683,560	-	139,683,560
Debentures	1,313,874,989	-	1,313,874,989
Lease Liabilities	3,206,097	-	3,206,097
	₩ 1,911,863,616	-	1,911,863,616

(In thousands of won)

December 31, 2013			
	Financial liabilities measured at amortized cost	Derivative financial instruments designated as hedged item	Total
Accounts payable - other	₩		
Other payable	259,839,133	-	259,839,133
Withholdings	33,942,630	-	33,942,630
Accrued expenses	218,446,424	-	218,446,424
Deposits received	18,987,084	-	18,987,084
Borrowings	29,504,080	-	29,504,080
Debentures	1,270,579,346	-	1,270,579,346
Lease Liabilities	22,035,761	-	22,035,761
Derivative financial liabilities	-	2,958,432	2,958,432
	₩ 1,853,334,458	2,958,432	1,856,292,890

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29. Financial Risk Management

(1) Financial risk management

The Company is exposed to credit risk, liquidity risk and market risk. Market risk is the risk related to the changes in market prices, such as foreign exchange rates, interest rates and equity prices. The Company implements a risk management system to monitor and manage these specific risks.

The Company's financial assets under financial risk management consist of cash and cash equivalents, financial instruments, available-for-sale financial assets, trade and other receivables. Financial liabilities consist of trade and other payables, borrowings, and debentures.

Details of the major accounting policies and standards for each category of financial assets, liabilities, and equity are disclosed in Note 4. Details of the amount for each category of financial assets and liabilities are disclosed in Note 28.

1) Market risk

(i) Currency risk

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

Monetary foreign currency assets and liabilities as of December 31, 2014 are as follows:

(In thousands of won, U.S. dollars and other foreign currencies)

				December 31, 2014	
				Foreign currencies	Won equivalents
Assets:					
Cash and cash equivalents	USD	5,638.80	₩		6,198
	JPY	867,161.00			7,979
Trade receivables	USD	40,389,116.52			44,395,717
	USD	40,394,755.32			
	JPY	867,161.00	₩		44,409,894
Liabilities:					
Debentures	USD	296,849,206.78	₩		326,296,648
Other payable	USD	40,430,191.99			44,440,867
	CNY	213.00			38
	USD	337,279,398.77			
	CNY	213.00	₩		370,737,553

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29. Financial Risk Management, Continued

As of December 31, 2014, effects on income (loss) before income tax as a result of change in exchange rate by 10% are as follows:

(In thousands of won)

		If increased by 10%	If decreased by 10%
USD(*)	₩	(3,895)	3,895
JPY		798	(798)
CNY		(4)	4

(*) Excludes effect of foreign currency debentures which are fully hedged using currency swap.
(Note 18)

(ii) Equity price risk

The Company holds investments in listed and non-listed equity securities for its liquidity management and ongoing business purposes. As of December 31, 2014, there are no investments in equity securities that are measured at fair value.

(iii) Interest rate risk

Since the Company's interest bearing assets are mostly fixed-interest bearing assets, as such, the Company's revenue and operating cash flow are not influenced by the changes in market interest rates. However, the Company still has interest rate risk arising from borrowings and debentures.

Accordingly, the Company performs various analysis of interest rate risk, which includes refinancing, renewal, alternative financing and hedging instrument option, to reduce interest rate risk and to optimize its financing.

The Company's interest rate risk arises from floating-rate borrowings and payables. As of December 31, 2014, floating-rate borrowings amount to ₩19,638,560 thousands. If the interest rate increases or decreases by 1% while other factors remain the same, income before income taxes for the year ended December 31, 2014 would have been decreased or increased by ₩196,386 thousands due to the changes in interest expense from floating-rate borrowings.

2) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet his/her contractual obligations. The maximum credit exposure as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014	December 31, 2013
Loans and receivables	₩	501,825,267	566,618,340
Derivative financial assets		2,306,604	-
	₩	<u>504,131,871</u>	<u>566,618,340</u>

To manage credit risk, the Company evaluates the credit worthiness of each customer or counterparty considering the party's financial information, its own trading records and other factors; based on such information, the Company establishes credit limits for each customer or counterparty.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

29. Financial Risk Management, Continued

For the year ended December 31, 2014, the Company has no trade and other receivables or loans which have indications of significant impairment loss or are overdue for a prolonged period. As a result, the Company believes that the possibility of default is remote. Also, the Company's credit risk can rise due to transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Company has a policy to deal with high credit worthy financial institutions. The amount of maximum exposure to credit risk of the Company is the carrying amount of financial assets as of December 31, 2014.

In addition, the aging of trade and other receivables that are overdue at the end of the reporting period but not impaired is stated in Note 6 and the analysis of financial assets that are individually determined to be impaired at the end of the reporting period is stated in Note 24.

3) Liquidity risk

The Company's approach to managing liquidity is to ensure that it will always maintain sufficient cash equivalents balance and have enough liquidity through various committed credit lines. The Company maintains flexibly enough liquidity under credit lines through active operating activities.

Contractual maturities of financial liabilities as of December 31, 2014 are as follows:

(In thousands of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Borrowings	₩ 139,683,560	145,807,553	82,168,461	63,639,092	-
Debentures(*1)	1,313,874,989	1,448,310,360	391,701,040	1,056,609,320	-
Lease Liabilities	3,206,097	3,286,158	3,286,158	-	-
Accounts payable - other (*2)	455,098,970	455,273,413	435,569,559	19,206,581	497,273
	₩ 1,911,863,616	2,052,677,484	912,725,218	1,139,454,993	497,273

(*1) Includes estimated interest to be paid and excludes discounts on bonds.

(*2) Excludes discounts on accounts payable-other.

(2) Capital management

The Company manages its capital to ensure that it will be able to continue as a business while maximizing the return to shareholders through the optimization of its debt and equity balance. The overall strategy of the Company is the same as that of the Company for the year ended December 31, 2013.

The Company monitors its debt-equity ratio as a capital management indicator. This ratio is calculated as total debt divided by total equity; the total debt and equity is extracted from the financial statements.

Debt-equity ratio as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

	December 31, 2014	December 31, 2013
Liabilities	₩ 1,989,426,838	1,916,721,114
Equity	1,121,611,555	1,127,628,227
Debt-equity ratio	177%	170%

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

29. Financial Risk Management, Continued

(3) Fair value

1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2014 are as follows:

(In thousands of won)

		December 31, 2014				
		Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value						
Derivative financial assets	₩	2,306,604	-	2,306,604	-	2,306,604
Financial assets not measured at fair value						
Cash and cash equivalents(*1)		20,462,661	-	-	-	-
Available-for-sale financial assets(*1,2)		6,013,781	-	-	-	-
Trade and other receivables (*1)		478,785,312	-	-	-	-
Financial instruments(*1)		2,579,500	-	-	-	-
	₩	<u>507,841,254</u>				
Financial liabilities not measured at fair value						
Borrowings	₩	139,683,560	-	143,434,817	-	143,434,817
Debentures		1,313,874,989	-	1,361,313,525	-	1,361,313,525
Lease Liabilities		3,206,097	-	3,253,612	-	3,253,612
Accounts payable - other(*1)		455,098,970	-	-	-	-
	₩	<u>1,911,863,616</u>				

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

29. Financial Risk Management, Continued

2) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2013 are as follows:

(In thousands of won)

(In thousands of won)

		December 31, 2013				
		Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value						
Cash and cash equivalents(*1)	₩	68,234,682	-	-	-	-
Available-for-sale financial assets (*1,2)		12,661,403	-	-	-	-
Trade and other receivables (*1)		495,093,757	-	-	-	-
Financial instruments(*1)		3,292,500	-	-	-	-
	₩	<u>579,282,342</u>				
Financial liabilities measured at fair value						
Derivative financial liabilities	₩	2,958,432	-	2,958,432	-	2,958,432
Financial liabilities not measured at fair value						
Borrowings		29,504,080	-	29,872,162	-	29,872,162
Debentures		1,270,579,346	-	1,288,384,683	-	1,288,384,683
Lease Liabilities		22,035,761	-	22,322,138	-	22,322,138
Accounts payable - other(*1)		531,215,271	-	-	-	-
	₩	<u>1,853,334,458</u>				

(*1) Does not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are considered to be an approximation of fair values.

(*2) The quoted prices for identical assets (level 1 input) in active markets are not measurable and there is no alternative way to measure fair values with sufficient reliability. Accordingly, these assets were measured at cost.

Derivative financial contracts and long-term liabilities are measured using the present value methods. Inputs used to such valuation methods include swap rate, interest rate, and risk premium, and the Company performs valuation using the inputs which are consistent with natures of assets, liabilities being evaluated.

Discount rates used by the Company for the fair value measurement as of December 31, 2014 are as follows:

	Discount rate
Derivative instruments	1.97% ~ 2.35%
Borrowings and debentures	2.39%

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

29. Financial Risk Management, Continued

(4) Enforceable master netting agreement or similar agreement

Carrying amount of financial instruments recognized of which offset agreements are applicable as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

		December 31, 2014					
		Gross financial instruments recognized	Gross offset financial instruments recognized	Net financial instruments presented on the statements of financial position	Relevant amount not offset on the statements of financial position		
					Financial instruments	Cash collaterals received	Net amount
Financial assets:							
Accounts receivable							
– trade and other		₩ 15,281,953	(12,257,037)	3,024,916	-	-	3,024,916
Financial liabilities:							
Accounts payable – other		12,257,037	(12,257,037)	-	-	-	-

(In thousands of won)

(In thousands of won)		December 31, 2013				
		Gross financial instruments recognized	Gross offset financial instruments recognized	Net financial instruments presented on the statements of financial position	Relevant amount not offset on the statements of financial position	
					Financial instruments	Cash collaterals received
						Net amount
Financial assets:						
Accounts receivable						
– trade and other	₩	5,441,989	(5,441,989)	-	-	-
Financial liabilities:						
Accounts payable – other		12,189,350	(5,441,989)	6,747,361	-	-
						6,747,361

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

30. Transactions with Related Parties

(1) Details of parent and subsidiary relationship as of December 31, 2014 is as follows:

Relationship	Company
Ultimate Controlling Entity	SK Holding Co., Ltd.
Immediate Controlling Entity	SK Telecom Co., Ltd.

(2) Transactions with related parties for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

Scope	Company	2014		
		Operating revenue and others	Operating expense and others	Acquisition of assets
Ultimate Controlling Entity	SK Holding Co., Ltd.	₩ 14,496	4,853,352	-
Immediate Controlling Entity	SK Telecom Co., Ltd.	588,967,620	133,057,228	9,905,780
Other	F&U Credit information Co., Ltd.	199,469	2,491,249	-
	SK Telink Co., Ltd.	11,400,147	6,213,900	46,000
	SK Communications Co., Ltd.	3,324,145	-	-
	PS&Marketing Corporation	104,198	5,560,917	-
	Service Ace Co., Ltd.	17,566	50,777,885	-
	Service Top Co., Ltd.	400,319	30,141,131	-
	Network O&S Co., Ltd.	349,774	31,105,965	5,915,452
	Television Media Korea Co., Ltd.	4,435,770	6,809,112	-
	SK Planet Co., Ltd.	24,853,661	4,789,531	12,247
	SK hynix Inc.	3,611,086	-	-
	M&Service Co., Ltd.	534,883	5,201,187	15,357
	SK Engineering & Construction Co., Ltd.	262,301	2,944,200	156,559,885
	SK Telesys Co., Ltd.	150,613	23,484,095	113,729,297
	SK C&C Co., Ltd.	12,753,006	44,015,602	39,161,263
	Infosec Co., Ltd	69,206	6,517,235	1,517,796
	SK Networks Co., Ltd.	999,452	1,768,388	56,343,623
	SK Networks Services Co., Ltd.	206,460	71,535,942	1,078,508
	Others	901,958	1,696,574	519,532
		₩ 653,556,130	432,963,493	384,804,740

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

30. Transactions with Related Parties, Continued

(In thousands of won)

Scope	Company	2013		
		Operating revenue and others	Operating expense and others	Acquisition of assets
Ultimate Controlling Entity	SK Holding Co., Ltd.	₩ 15,345	4,781,676	-
Immediate Controlling Entity	SK Telecom Co., Ltd.	573,043,169	110,634,898	671,148
Other	F&U Credit information Co., Ltd.	164,648	1,933,374	-
	SK Telink Co., Ltd.	9,719,546	9,837,577	383,980
	SK Communications Co., Ltd.	3,961,066	106	-
	PS&Marketing Corporation	17,436	4,931,443	-
	Service Ace Co., Ltd.	80,125	47,630,015	-
	Service Top Co., Ltd.	366,799	28,390,197	-
	Network O&S Co., Ltd.	418,538	30,081,236	6,455,757
	Television Media Korea Co., Ltd.	4,427,947	5,708,056	-
	SK Planet Co., Ltd.	8,256,755	5,543,715	102,970
	SK hynix Inc.	2,844,551	-	-
	M&Service Co., Ltd.	177,040	4,435,014	20,757
	SK Engineering & Construction Co., Ltd.	110,066	1,095,980	122,584,630
	SK Telesys Co., Ltd.	156,428	44,767,096	160,846,127
	SK C&C Co., Ltd.	12,025,525	43,000,022	36,178,124
	Infosec Co., Ltd	73,707	5,956,001	2,394,494
	SK Networks Co., Ltd.	599,699	3,757,270	61,222,024
	SK Networks Services Co., Ltd.	297,641	69,009,224	1,679,609
	Others	1,901,824	2,463,099	1,046,586
		₩ 618,657,855	423,955,999	393,586,206

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

30. Transactions with Related Parties, Continued

(3) Account balances as of December 31, 2014 and 2013 are as follows:

(In thousands of won)

Scope	Company	December 31, 2014			
		Receivables		Payables	
		Trade Receivables	Others	Accounts payable - other	Others
Ultimate Controlling Entity	SK Holding Co., Ltd.	₩ -	-	-	-
Immediate Controlling Entity	SK Telecom Co., Ltd.	26,595,097	11,837,052	2,225,226	1,051,718
Other	SK Telink Co., Ltd.	125,939	-	283,333	47,600
	SK Communications Co., Ltd.	123,871	-	-	-
	PS&Marketing Corporation	-	-	547,594	-
	Service Ace Co., Ltd.	129	-	6,712,863	-
	Service Top Co., Ltd.	29,316	-	2,788,462	300,000
	Network O&S Co., Ltd.	20,293	-	2,980,433	70,000
	Television Media Korea Co., Ltd.	465,263	-	715,345	-
	SK Planet Co., Ltd.	691,990	-	1,958,138	-
	M&Service Co., Ltd.	2,860	-	290,258	-
	SK Engineering & Construction Co., Ltd.	200,000	-	23,431,787	-
	SK Telesys Co., Ltd.	10,057	1	29,919,834	-
	SK C&C Co., Ltd.	26,088	438,254	23,996,100	3,388,000
	Infosec Co., Ltd	-	-	1,425,927	-
	SK Networks Co., Ltd.	42,688	4,615	1,788,781	134,319
	SK Networks Services Co., Ltd.	976	-	649,583	-
	Others	-	-	802,854	-
		₩ 28,334,567	12,279,922	100,516,518	4,991,637

SK BROADBAND CO., LTD.
Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

30. Transactions with Related Parties, Continued

(In thousands of won)

Scope	Company	December 31, 2013			
		Receivables		Payables	
		Trade Receivables	Others	Accounts payable - other	Others
Ultimate Controlling Entity	SK Holding Co., Ltd.	₩ -	-	-	-
Immediate Controlling Entity	SK Telecom Co., Ltd.	97,747,716	9,402,064	4,985,448	981,718
Other	SK Telink Co., Ltd.	128,476	-	365,403	-
	SK Communications Co., Ltd.	169,194	-	-	-
	Service Ace Co., Ltd.	5,496	-	3,894,355	-
	Service Top Co., Ltd.	29,282	-	2,513,969	300,000
	Network O&S Co., Ltd.	27,086	-	1,251,940	80,000
	Television Media Korea Co., Ltd.	746,863	-	521,891	-
	SK Planet Co., Ltd.	510,876	-	4,317,366	-
	M&Service Co., Ltd.	-	-	76,162	-
	SK Engineering & Construction Co., Ltd.	3,520	-	1,481,763	-
	SK Telesys Co., Ltd.	10,057	1	63,636,931	-
	SK C&C Co., Ltd.	11,884	438,254	28,896,053	3,388,000
	Infosec Co., Ltd.	-	-	2,055,809	-
	SK Networks Co., Ltd.	-	1,551	3,252,792	199,922
	SK Networks Services Co., Ltd.	1,481	7,686	1,413,783	-
	Others	1,100	-	164,451	-
		₩ 99,393,031	9,849,556	118,828,116	4,949,640

(4) Compensation for the key management

The Company considers registered directors who have substantial role and responsibility in planning, operating, and controlling of the business as key management. The considerations given to such key management for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Salaries	₩ 1,136,064	1,384,426
Provision for retirement benefits	250,876	134,891
	₩ 1,386,940	1,519,317

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

31. Commitments

- (1) The Company entered into credit agreements with several banks which allow borrowings up to ~~₩~~102 billion as of December 31, 2014.
- (2) The Company's debentures contain covenants which require the Company to maintain certain debt to equity ratio and prohibit providing payment guarantee or collateral to others. The Company is also subject to other restrictions in relation to its debentures.
- (3) The Company's Board of Directors approved to provide its time deposit as collateral in order to encourage members of the Employee Stock Purchase Association (ESPA) to contribute to the ESPA, which will be used to purchase the Company's shares in the market. Under this approval, the Company pledged its time deposit of ~~₩~~2,071 million as of December 31, 2014. (Note 5)
- (4) The Company's buildings have been provided as collateral for an amount of ~~₩~~14,200 million in connection with its rental contracts.
- (5) The Company and its parent company, SK Telecom Co., Ltd. have entered into an operating service agreement relating to SK Telecom Co., Ltd.'s owned exclusive service line.
- (6) As of December 31, 2014, the Company is provided contract guarantee amounting to ~~₩~~16,345 million by Seoul Guarantee Insurance.

32. Litigations

- (1) Significant litigations in which the Company is a plaintiff as of December 31, 2014 are as follows:

(In thousands of won)

	<u>Date of litigation</u>		<u>Litigation amounts</u>
Claim for damage to Shilla savings bank	March, 2014	₩	353,403
Withdrawal of compensation	October, 2014		715,121
Claim for damage to Golden young, etc.	April, 2011		908,166
		₩	<u>1,976,690</u>

- (2) Significant litigations in which the Company is a defendant as of December 31, 2014 are as follows:

(In thousands of won)

	<u>Date of litigation</u>		<u>Litigation amounts</u>
Claim for damage from Hain networks. Inc	March, 2013	₩	101,000
Claim for damage from Mac Telecom.Inc	January, 2012		606,000
Claim for damage from Jiticom.Inc	March, 2014		101,000
Others			207,861
		₩	<u>1,015,861</u>

The final outcome of the above litigations cannot be determined as of December 31, 2014. However, management believes that the final outcome of these litigations will not have a materially adverse impact on the operations or financial position of the Company.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

33. Statements of Cash Flows

- (1) Adjustments for income and expenses from operating activities for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Interest income	₩ (5,341,541)	(8,045,764)
Dividends	(500)	(500)
Gain on foreign currency translation	(1,901,050)	(2,448,682)
Gain on disposal of long-term investments securities	-	(162,366)
Gain on disposal of property and equipment and intangible assets	(3,015,157)	(4,854,488)
Share of gain of associates	(1,264,037)	(240,418)
Gain on disposal of investment in associates	-	(61,255)
Gain on valuation of derivatives	(13,031,680)	-
Interest expense	53,894,202	54,377,530
Loss on foreign currency translation	15,037,875	631,219
Loss on valuation of derivatives	-	1,830,000
Provision for retirement benefits	14,816,163	14,282,833
Depreciation and amortization	489,482,920	467,260,870
Bad debt for accounts receivable	14,379,880	17,791,926
Loss on disposal of property and equipment and intangible assets	69,497	42,007
Loss on abandonment of property and equipment and intangible assets	2,628,267	4,093,854
Share of loss of associates	751,396	992,927
Loss on disposal of investment in associates	275,889	-
Loss on disposal of lease assets	362,660	1,921,789
Loss on impairment of investment securities	6,113,812	13,204,843
Loss on disposals of investment securities	-	662,500
Other expenses	1,068,631	982,498
	₩ 574,327,227	562,261,323

- (2) Changes in assets and liabilities from operating activities for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Accounts receivable – trade	₩ 5,721,058	(51,493,627)
Accounts receivable – other	(56,381)	(410,202)
Advance payments	(731)	634,153
Prepaid expenses	(20,074,033)	(1,922,716)
Inventories	(995,180)	(94,299,914)
Other current assets	7,177,603	(9,410,383)
Long-term trade receivables	2,036,713	2,316,761
Accounts payable – other	(58,914,712)	58,215,593
Advanced receipts	1,485,752	(906,808)
Withholdings	(4,120,103)	3,521,794
Accrued expenses	(27,652,608)	10,298,743
Other liabilities	(1,044,966)	(2,922,428)
Defined benefit liabilities	711,484	-
Retirement benefit payment	(2,860,925)	(3,854,438)
	₩ (98,587,029)	(90,233,472)

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2014 and 2013

33. Statements of Cash Flows, Continued

(3) Significant non-cash transactions for the years ended December 31, 2014 and 2013 are as follows:

(In thousands of won)

	2014	2013
Transfer of long-term trade receivables to current portion	₩ 1,297,862	2,093,730
Write-off of trade and other receivables	17,731,553	19,551,481
Transfer of long-term loans to current portion	3,234,191	2,748,234
Transfer of inventories to property and equipment	14,585,323	110,325,373
Transfer of construction in progress to property and equipment	292,717,313	130,379,769
Transfer of debentures to current portion	349,540,325	389,421,721
Transfer of long-term borrowings to current portion	9,110,500	9,820,520
Transfer of long-term lease liabilities to current portion	3,206,097	18,829,664
Transfer of provision for severance indemnities to property and equipment	670,468	663,455
Transfer of long-term employee benefits to property and equipment	(13,195)	43,573
Accounts payable related to acquisition of property and equipment and others	13,825,432	-
Transfer of investment property to land	408,563	759,713
Transfer of investment property to buildings	174,056	8,800,501
Expiration of stock option	4,763,304	-
	<u>₩ 711,251,792</u>	<u>693,437,734</u>

34. Operating Segments

The Company determined that it has a single operating segment considering the nature of goods and services the Company provides and characters of network assets. Accordingly, there is no separate segment information is provided.

The Company's revenue is mainly generated from customers in Korea, and most of the Company's non-current assets are located in Korea. As such, separate geographic information is not disclosed.

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Independent Auditors' Review Report on Internal Accounting Control System

Based on a report originally issued in Korean

To the Representative Director of
SK Broadband Co., Ltd.:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of SK Broadband Co., Ltd. (the "Company") as of December 31, 2014. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2014, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2014 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2014. We did not review the Company's IACS subsequent to December 31, 2014. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting Corp.

Seoul, Korea

February 22, 2015

Report on the Operations of Internal Accounting Control System ("IACS")

Based on a report originally issued in Korean

To the Board of Directors and Audit Committee of
SK Broadband Co., Ltd.

I, as the Internal Accounting Control Officer ("IACO") of SK Broadband Co., Ltd. ("the Company"), assessed the status of the design and operation of the Company's IACS for the year ended December 31, 2014.

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

Based on the assessment of the IACS, the Company's IACS has been appropriately designed and is operating effectively As of December 31, 2014, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

January 28, 2015

/s/ Internal Accounting Control Officer

/s/ Chief Executive Officer