

SK BROADBAND CO., LTD.

Financial Statements

December 31, 2015 and 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 statements of financial position as at December 31, 2015 and 2014, the related statements of income, comprehensive income, changes in equity and cash flows for the years 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 ("K-IFRS"), 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 audits. We conducted our audits 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, referred to above the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2015 and 2014 and of its financial performance and its cash flows for the years then ended in accordance with K-IFRS.



Emphasis of Matter

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

As discussed in note 35 to the financial statements, On November 2, 2015, the Company's board of directors authorized the merger with CJ HelloVision Co., Ltd. SK Broadband Co., Ltd. will be merged into CJ HelloVision Co., Ltd. after the merger which is expected to take place on April 1, 2016.

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 23, 2016

This report is effective as of February 23, 2016, 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, 2015 and 2014

(In thousands of won)

	Note	December 31, 2015	December 31, 2014
Assets			
Cash and cash equivalents	27,28 ₩	82,270,601	20,462,661
Short-term financial instruments	4,27,28	1,719,000	2,571,000
Trade and other receivables, net	5,27,28,29	385,095,718	403,149,127
Inventories, net	6,29	8,826,174	11,182,680
Income tax refund receivable	25	317,427	324,392
Other current assets	12	39,342,977	27,121,391
Current Assets		517,571,897	464,811,251
Long-term financial instruments	4,27,28	8,000	8,500
Long-term investment securities	7,27,28	5,381,358	6,013,781
Long-term trade and other receivables, net	5,27,28,29	72,886,980	75,636,185
Investments in associates	8	22,818,897	24,420,015
Property, plant and equipment, net	9,30	2,401,375,912	2,317,256,916
Investment property, net	10	24,223,223	24,608,449
Intangible assets, net	11	184,206,378	178,440,497
Other non-current assets	12	36,758,441	17,536,195
Long-term derivative financial assets	17,27	26,476,265	2,306,604
Non-Current Assets		2,774,135,454	2,646,227,142
Total Assets	₩	3,291,707,351	3,111,038,393

See accompanying notes to the financial statements.

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

As of December 31, 2015 and 2014

(In thousands of won)

	<u>Note</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Liabilities			
Accounts payable - other	27,28,29	₩ 494,581,194	434,856,736
Short-term borrowings and current portion of long-term debt	13,27,28	120,457,257	429,879,518
Other current financial liabilities	14,27,28	-	3,206,097
Other current liabilities	15	22,401,218	14,991,152
Current Liabilities		637,439,669	882,933,503
Long-term payables - other	27,28,29	19,231,791	20,242,234
Long-term borrowings and debentures, excluding current portion	13,27,28	1,434,687,461	1,023,679,031
Other non-current liabilities	15	8,491,719	9,060,764
Provisions	16	3,689,555	3,532,428
Defined benefit liabilities	18	66,943,575	49,978,878
Non-Current Liabilities		1,533,044,101	1,106,493,335
Total Liabilities		2,170,483,770	1,989,426,838
Equity			
Share capital	1,19	1,492,301,060	1,479,795,435
Capital surplus and other capital adjustments	19	291,802,492	314,189,109
Accumulated deficit	21	(656,486,632)	(663,477,913)
Reserves	20	(6,393,339)	(8,895,076)
Total Equity	28	1,121,223,581	1,121,611,555
Total Liabilities and Equity		₩ 3,291,707,351	3,111,038,393

See accompanying notes to the financial statements.

SK BROADBAND CO., LTD.
Statements of Income

For the years ended December 31, 2015 and 2014

(In thousands of won, except earnings per share)

	Note	2015	2014
Operating revenue:			
Revenue	29,33 ₩	2,731,344,069	2,654,381,278
Operating expense:	29		
Labor cost	18	172,558,544	154,595,537
Depreciation and amortization	9,10,11	518,968,220	489,482,920
Telecommunication equipment lease expenses		206,806,941	205,427,391
Sales commissions		203,276,292	241,499,375
Interconnection charges		207,641,491	220,266,527
Fees and Commissions		883,539,105	780,220,364
Cost of goods that have been resold		71,537,046	118,155,484
Advertising		122,031,735	119,415,117
Maintenance		129,477,467	118,355,211
Utilities		64,008,929	62,800,380
Bad debt expense	5	16,035,914	14,379,880
Other operating expenses	22	71,737,470	71,628,924
		<u>2,667,619,154</u>	<u>2,596,227,110</u>
Operating income		63,724,915	58,154,168
Finance income	23	28,589,413	20,939,477
Finance costs	23	(78,129,904)	(75,748,713)
Other non-operating income	24	5,652,810	12,504,003
Other non-operating expenses	24	(8,838,793)	(11,778,193)
Gain (loss) relating to investments in associates	8	(166,855)	236,752
Profit before income tax		10,831,586	4,307,494
Income tax expense	25	-	-
Profit for the year	₩	10,831,586	4,307,494
Earnings per share	26		
Basic earnings per share (in won)	₩	36	15

See accompanying notes to the financial statements.

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

For the years ended December 31, 2015 and 2014

(In thousands of won)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Profit for the year	₩	10,831,586	4,307,494
Other comprehensive income (loss)			
Items that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liabilities	18	(3,840,305)	(2,557,522)
Items that are or may be reclassified to profit or loss:			
Gain (loss) on valuation of derivatives	17,20,23	<u>2,501,737</u>	<u>(7,766,644)</u>
		<u>(1,338,568)</u>	<u>(10,324,166)</u>
Total comprehensive income (loss)	₩	<u>9,493,018</u>	<u>(6,016,672)</u>

See accompanying notes to the financial statements.

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

For the years ended December 31, 2015 and 2014

(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, 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)
Remeasurements of defined benefit liabilities		-	-	-	-	(2,557,522)	-	(2,557,522)
Transactions with owners, 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
Balance at January 1, 2015	₩	1,479,795,435	360,042,663	(45,853,554)	-	(663,477,913)	(8,895,076)	1,121,611,555
Total comprehensive income :								
Profit for the year		-	-	-	-	10,831,586	-	10,831,586
Gain on valuation of derivatives		-	-	-	-	-	2,501,737	2,501,737
Remeasurements of defined benefit liabilities		-	-	-	-	(3,840,305)	-	(3,840,305)
Transactions with owners, recognized directly in equity :								
Loss on disposal of treasury stock		-	-	(21,862,993)	-	-	-	(21,862,993)
Stock issuance from business combination		12,505,625	(63,288)	(460,336)	-	-	-	11,982,001
Balance at December 31, 2015	₩	1,492,301,060	359,979,375	(68,176,883)	-	(656,486,632)	(6,393,339)	1,121,223,581

See accompanying notes to the financial statements.

SK BROADBAND CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(In thousands of won)

	Note	2015	2014
Cash flows from operating activities:			
Cash generated from operating activities			
Profit for the year	₩	10,831,586	4,307,494
Adjustments for income and expenses	32	600,352,080	574,327,227
Changes in assets and liabilities related to operating activities	32	23,332,787	(98,587,029)
Sub-total		634,516,453	480,047,692
Interest received		3,132,893	3,674,005
Dividends received		500	500
Interest paid		(50,664,194)	(51,962,151)
Net cash provided by operating activities		586,985,652	431,760,046
Cash flows from investing activities:			
Cash inflows from investing activities:			
Decrease in short-term financial instruments		2,071,000	2,784,000
Decrease in long-term financial instruments		500	-
Collection of short-term loans		9,000,848	5,523,096
Proceeds from disposal of long-term investment securities		5,132,422	533,810
Proceeds from disposal of investments in associates		1,434,263	394,073
Proceeds from disposal of property and equipment		5,587,333	4,943,381
Proceeds from disposal of intangible assets		32,000	3,083,190
Collection of long-term loans		1,342,861	441,937
Decrease in deposits		11,291,508	4,632,085
Acquisition of business, net of cash acquired		2,034,251	-
Sub-total		37,926,986	22,335,572
Cash outflows for investing activities:			
Increase in short-term financial instruments		(1,219,000)	(2,071,000)
Increase in short-term loans		(5,236,233)	(2,138,202)
Acquisition of investments in associates		-	(4,500,000)
Acquisition of property, plant and equipment		(580,517,992)	(585,652,958)
Acquisition of intangible assets		(9,646,484)	(14,033,422)
Increase in long-term loans		(8,793,298)	(3,604,236)
Increase in deposits		(4,648,917)	(9,351,978)
Acquisition of long-term investment securities		(4,500,000)	-
Sub-total		(614,561,924)	(621,351,796)
Net cash used in investing activities		(576,634,938)	(599,016,224)

See accompanying notes to the financial statements.

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

For the years ended December 31, 2015 and 2014

(In thousands of won)

	<u>Note</u>	<u>2015</u>	<u>2014</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
Proceeds from Issuance of debentures		478,001,300	418,257,750
Proceeds from disposal of treasury stock		186,234,219	-
Sub-total		<u>664,235,519</u>	<u>538,257,750</u>
Cash outflows for financing activities:			
Repayment of short-term borrowings, net		(41,000,000)	-
Repayment of debentures		(350,000,000)	(390,000,000)
Repayment of long-term borrowings		(12,316,597)	(28,650,184)
Repayment of long-term account payables-other		(1,301,141)	(123,473)
Acquisition of treasury stock		(208,097,212)	-
Stock issue cost		(63,288)	-
Sub-total		<u>(612,778,238)</u>	<u>(418,773,657)</u>
Net cash provided by financing activities		<u>51,457,281</u>	<u>119,484,093</u>
Net increase(decrease) in cash and cash equivalents		61,807,995	(47,772,085)
Cash and cash equivalents at January 1		20,462,661	68,234,682
Effects of exchange rate changes on cash held		(55)	65
Cash and cash equivalents at December 31	₩	<u>82,270,601</u>	<u>20,462,662</u>

See accompanying notes to the financial statements.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

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, electric telecommunication line lease, construction, possession and operation in Korea.

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, 2015. On December 12, 2002, the Company received a license to provide domestic long-distance call and international call services 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, it received a license to provide Internet Protocol Television("IPTV") services on September 24, 2008, and started the service on January 12, 2009.

On November 11, 1998, The Company listed its common shares on the Korean Securities Dealers Automated Quotations ("KOSDAQ"). However, according to the resolution of the board of directors on March 20, 2015, the Company was incorporated as a wholly owned subsidiary of SK Telecom Co., Ltd., by comprehensive exchange of shares on June 9, 2015. Therefore, in accordance with KOSDAQ market listing regulation 29 and enforcement regulations 29, the Company was delisted on July 1, 2015.

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 ₩1,492,301 million as of December 31, 2015 after capital increase by issuing new stocks and capital reduction without refund.

The Company's shareholder is SK Telecom Co., Ltd., which owns 298,460,212 common shares (100%) as of December 31, 2015.

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*.

(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, 2015 and 2014

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, 2015 and 2014

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 28 (Financial Risk Management).

3. 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.

(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.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

(3) Non-derivative financial assets, Continued

(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.

(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.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

(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).

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;

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

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

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

- (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.

(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.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

(5) Impairment of financial assets, Continued

(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.

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.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

(6) Investments in associates, Continued

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.

(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.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

(7) Property, plant and equipment, Continued

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.

(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

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

(9) Intangible assets, Continued

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.

(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.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

(11) Impairment of non-financial assets, Continued

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.

(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.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

(12) Leases, Continued

(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.

(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).

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

(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.

(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.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

(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.

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.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

(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.

(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.

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

3. Significant Accounting Policies, Continued

(20) Income taxes, Continued

(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.

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) Business combinations under common control

The assets and liabilities acquired from the combination of entities or business under common control are recognized at the carrying amounts in the ultimate controlling shareholder's consolidated financial statements. The difference between consideration and carrying amount of net assets acquired is added to or subtracted from other capital adjustments.

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

For the years ended December 31, 2015 and 2014

4. Restricted Deposits

Deposits which are restricted in use as of December 31, 2015 and 2014 are summarized as follows:

(In thousands of won)

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Short-term financial instruments		
Deposits for employees' borrowings relating to employee stock ownership	₩ 1,219,000	2,071,000
Fund for subcontractors(*)	500,000	500,000
Long-term financial instruments		
Deposits for checking account	8,000	8,500
	₩ <u>1,727,000</u>	<u>2,579,500</u>

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

5. Trade and Other Receivables

(1) Details of trade and other receivables as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

		<u>December 31, 2015</u>	
	<u>Gross amount</u>	<u>Allowances for impairment</u>	<u>Carrying amount</u>
Current assets:			
Accounts receivable - trade	₩ 469,792,470	(89,299,770)	380,492,700
Short-term loans	3,877,733	-	3,877,733
Accounts receivable - other	4,749,271	(4,034,620)	714,651
Accrued income	10,634	-	10,634
	<u>478,430,108</u>	<u>(93,334,390)</u>	<u>385,095,718</u>
Non-current assets:			
Long-term trade receivables	11,718,842	-	11,718,842
Long-term loans	15,656,552	-	15,656,552
Guarantee deposits	45,511,586	-	45,511,586
	<u>72,886,980</u>	<u>-</u>	<u>72,886,980</u>
	₩ <u>551,317,088</u>	<u>(93,334,390)</u>	<u>457,982,698</u>

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

For the years ended December 31, 2015 and 2014

5. Trade and Other Receivables, Continued

(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
		489,452,998	(86,303,871)	403,149,127
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
		75,636,185	-	75,636,185
	₩	565,089,183	(86,303,871)	478,785,312

- (2) The movement in allowance for doubtful accounts of trade and other receivables during the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

		2015	2014
Balance at January 1	₩	86,303,871	82,776,798
Increase of bad debt allowances		16,035,914	14,379,880
Write-offs		(16,419,014)	(17,731,553)
Collection of receivables previously written-off		7,413,619	6,878,746
Balance at December 31	₩	93,334,390	86,303,871

- (3) Details of overdue but not impaired, and impaired trade and other receivable as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

		December 31, 2015		December 31, 2014	
		Accounts receivable - trade	Other receivables	Accounts receivable - trade	Other receivables
Neither overdue nor impaired	₩	221,630,967	65,771,156	224,864,182	71,359,504
Overdue but not impaired		-	-	-	-
Impaired		259,880,345	4,034,620	264,876,925	3,988,572
		481,511,312	69,805,776	489,741,107	75,348,076
Allowances for doubtful accounts		(89,299,770)	(4,034,620)	(82,315,299)	(3,988,572)
	₩	392,211,542	65,771,156	407,425,808	71,359,504

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, 2015 and 2014

6. Inventories

Details of inventories as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

		<u>December 31, 2015</u>	<u>December 31, 2014</u>
Merchandise:			
Acquisition cost	₩	8,826,174	11,182,680
Inventory valuation reserve		-	-
Carrying value	₩	<u>8,826,174</u>	<u>11,182,680</u>

7. Long-term Investment Securities

(1) Details of long-term available-for-sale financial assets as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

		<u>December 31, 2015</u>	<u>December 31, 2014</u>
Equity securities:			
Unlisted equity securities	₩	813,456	813,456
Equity investments (*)		4,567,902	5,200,325
Long-term investment securities	₩	<u>5,381,358</u>	<u>6,013,781</u>

(*) The Company has withdrawn its investment of ₩ 5,000 million from SKB anonymous association and newly invested ₩ 4,500 million to Central Convergence Contents & Technology Fund in 2015. In addition, there is no investments balance as of December 31, 2015.

There was no impairment loss for long-term investments securities in 2015 while the Company recognized impairment loss of ₩ 6,144 million for it in 2014.

(2) There were no changes in unrealized income (loss) in 2015 and 2014, respectively.

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

For the years ended December 31, 2015 and 2014

8. Investments in Associates

(1) Details of investments in associates as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

December 31, 2015					
	Number of shares	Ownership percentage (%)	Acquisition cost	Net asset value	Carrying value
SSV-Digital Culture Contents Investment Association(*)	50	19.92	₩ 3,565,737	719,572	719,572
SSV Movie Investment Association	135	46.55	13,500,000	17,619,355	17,619,355
Daekyo Majestic Contents Korea Fund (*)	45	18.00	4,500,000	4,479,970	4,479,970
			₩ 21,565,737	22,818,897	22,818,897

(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

(*) Although the Company holds 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 associates' Investment Deliberation Committee.

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

For the years ended December 31, 2015 and 2014

8. Investments in Associates, Continued

(2) Changes in investments in associates for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

		2015				
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Gain (Loss)</u>	<u>Ending balance</u>
SSV-Digital Culture Contents Investment Association	₩	2,545,536	-	(1,434,263)	(391,701)	719,572
SSV Movie Investment Association		17,378,234	-	-	241,121	17,619,355
Daekyo Majestic Contents Korea Fund		4,496,245	-	-	(16,275)	4,479,970
	₩	<u>24,420,015</u>	<u>-</u>	<u>(1,434,263)</u>	<u>(166,855)</u>	<u>22,818,897</u>

(In thousands of won)

		2014				
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Gain (Loss)</u>	<u>Ending balance</u>
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>

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

For the years ended December 31, 2015 and 2014

8. Investments in Associates, Continued

(3) The key financial information of associates as of and for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

(In thousands of won)		2015			
		Assets	Liabilities	Operating revenue	Net income (loss)
SSV-Digital Culture Contents Investment Association	₩	3,615,178	2,926	743,253	438,613
SSV Movie Investment Association		37,886,221	37,236	2,988,779	521,573
Daekyo Majestic Contents Korea Fund		24,888,720	-	403,643	(113,937)

(In thousands of won)

(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		37,886,221	37,236	2,988,779	521,573
Daekyo Majestic Contents Korea Fund		37,331,021	-	4,864,870	2,702,714

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

For the years ended December 31, 2015 and 2014

8. Investments in Associates, Continued

- (4) Adjustments from associates' net assets to carrying amount of investment in associates as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

		December 31, 2015			
		Associates' net asset(A)	Ownership interest(B)	Net assets attributable to the ownership interests	Carrying amount
SSV-Digital Culture Contents Investment Association	₩	3,612,252	19.92%	₩ 719,572	719,572
SSV Movie Investment Association		37,848,985	46.55%	17,619,355	17,619,355
Daekyo Majestic Contents Korea Fund		24,888,720	18.00%	4,479,970	4,479,970
				₩ <u>22,818,897</u>	<u>22,818,897</u>

(In thousands of won)

		December 31, 2014			
		Associates' net asset(A)	Ownership interest(B)	Net assets attributable to the ownership interests	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>

SK BROADBAND CO., LTD.
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For the years ended December 31, 2015 and 2014

9. Property, plant and Equipment

(1) Property, plant and equipment as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

		December 31, 2015			
		Acquisition cost	Accumulated depreciation	Accumulated impairment	Carrying amount
Land	₩	167,486,781	-	-	167,486,781
Buildings		350,217,951	(133,735,572)	-	216,482,379
Structures		239,962	(77,820)	-	162,142
Machinery		6,469,003,271	(4,492,673,033)	(1,432,666)	1,974,897,572
Vehicles		1,556,589	(1,380,460)	-	176,129
Others		74,317,288	(65,848,289)	-	8,468,999
Construction-in-progress		33,701,910	-	-	33,701,910
	₩	<u>7,096,523,752</u>	<u>(4,693,715,174)</u>	<u>(1,432,666)</u>	<u>2,401,375,912</u>

(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>

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

9. Property, plant and Equipment, Continued

(2) Details of changes in property and equipment for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

2015							
	Beginning balance	Acquisition	Disposal	Business combinations	Transfer	Depreciation	Ending balance
Land	₩ 167,511,913	-	-	-	(25,132)	-	167,486,781
Buildings	226,041,895	132,700	-	-	544	(9,692,760)	216,482,379
Structures	168,251	-	-	-	-	(6,109)	162,142
Machinery	1,894,870,848	389,314,537	(6,179,281)	667,079	154,117,646	(457,893,257)	1,974,897,572
Vehicles	198,590	164,260	(1)	-	-	(186,720)	176,129
Other	8,380,759	4,344,145	(10,031)	14,141	100,997	(4,361,012)	8,468,999
Construction-in-progress	20,084,660	198,852,500	-	-	(185,235,250)	-	33,701,910
	₩ 2,317,256,916	592,808,142	(6,189,313)	681,220	(31,041,195)	(472,139,858)	2,401,375,912

(In thousands of won)

2014							
	Beginning balance	Acquisition	Disposal	Business combinations	Transfer	Depreciation	Ending balance
Land	₩ 167,103,350	-	-	-	408,563	-	167,511,913
Buildings	235,448,280	105,284	-	-	174,056	(9,685,725)	226,041,895
Structures	174,360	-	-	-	-	(6,109)	168,251
Machinery	1,753,538,905	323,424,591	(4,553,524)	-	254,960,046	(432,499,170)	1,894,870,848
Vehicles	407,128	-	-	-	-	(208,538)	198,590
Other	10,181,979	2,984,632	(8,029)	-	-	(4,777,823)	8,380,759
Construction-in-progress	24,595,494	273,621,156	-	-	(278,131,990)	-	20,084,660
	₩ 2,191,449,496	600,135,663	(4,561,553)	-	(22,589,325)	(447,177,365)	2,317,256,916

The Company recognized ₩2,534 million and ₩2,628 million for a loss on abandonment of equipments as other non-operating expenses for the years ended December 31, 2015 and 2014, respectively, due to discontinuance of services, decrease of customer demands and deteriorations of conditions of certain machinery.

(3) Machinery, Buildings and others are insured for fire and other casualty losses up to ₩1,479,670 million as of December 31, 2015. In addition, the Company carries car insurance policies, occupational health and safety insurance policies for employees, and commercial liability insurance policies.

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

For the years ended December 31, 2015 and 2014

10. Investment property

(1) Investment property as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

		December 31, 2015		
		Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩	16,740,564	-	16,740,564
Buildings		12,996,930	(5,514,271)	7,482,659
	₩	29,737,494	(5,514,271)	24,223,223

(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

(2) Details of changes in investment property for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

		2015				
		Beginning balance	Acquisition	Disposal	Transfer	Ending balance
Land	₩	16,715,431	-	-	25,133	16,740,564
Buildings		7,893,018	-	-	(544)	7,482,659
	₩	24,608,449	-	-	24,589	24,223,223

(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

(3) Fair value information of investment property as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

		December 31, 2015		December 31, 2014	
		Carrying value	Fair value	Carrying value	Fair value
Land	₩	16,740,564	13,675,128	16,715,431	13,782,281
Buildings		7,482,659	8,889,574	7,893,018	8,663,177
	₩	24,223,223	22,564,702	24,608,449	22,445,458

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

For the years ended December 31, 2015 and 2014

10. Investment property, Continued

(4) Details of income and expenses incurred for investment property for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

		2015		2014
Rental income(*)	₩	1,599,273	₩	1,689,770
Operating expenses(*)		409,814		412,445

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

11. Intangible Assets

(1) Intangible assets as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

December 31, 2015					
		Acquisition cost	Accumulated amortization	Accumulated impairment	Carrying amount
Customer relationship	₩	127,172,099	(124,901,641)	-	2,270,458
Cable line usage rights		98,078,080	(67,495,959)	-	30,582,121
Development costs		23,114,955	(21,062,082)	-	2,052,873
Memberships		8,486,351	-	-	8,486,351
License		45,000,000	-	-	45,000,000
Others		271,631,407	(175,816,832)	-	95,814,575
	₩	573,482,892	(389,276,514)	-	184,206,378

(In thousands of won)

December 31, 2014					
		Acquisition cost	Accumulated amortization	Accumulated impairment	Carrying amount
Customer relationship	₩	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
Others		221,160,030	(139,601,020)	-	81,559,010
	₩	521,298,464	(342,857,967)	-	178,440,497

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

For the years ended December 31, 2015 and 2014

11. Intangible Assets, Continued

- (2) Details of changes in intangible assets for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

		2015						
		Beginning balance	Acquisition	Disposal	Business combinations	Transfer	Amortization	Ending balance
Customer relations	₩	3,511,900	726,001	-	-	-	(1,967,443)	2,270,458
Cable line usage rights		35,637,409	649,449	-	-	-	(5,704,737)	30,582,121
Development costs		4,583,428	-	-	-	-	(2,530,555)	2,052,873
Memberships		8,148,750	370,305	(32,704)	-	-	-	8,486,351
License		45,000,000	-	-	-	-	-	45,000,000
Others		81,559,010	7,900,729	-	10,946,187	31,624,461	(36,215,812)	95,814,575
	₩	178,440,497	9,646,484	(32,704)	10,946,187	31,624,461	(46,418,547)	184,206,378

(In thousands of won)

		2014						
		Beginning balance	Acquisition	Disposal	Business combinations	Transfer	Amortization	Ending balance
Customer relations	₩	4,884,106	1,075,249	(218,189)	-	-	(2,229,266)	3,511,900
Cable line usage rights		41,314,135	-	-	-	-	(5,676,726)	35,637,409
Development costs		7,629,940	-	-	-	-	(3,046,512)	4,583,428
Memberships		6,238,935	4,839,250	(2,929,435)	-	-	-	8,148,750
License		45,000,000	-	-	-	-	-	45,000,000
Others		66,623,425	8,118,923	-	-	37,757,268	(30,940,606)	81,559,010
	₩	171,690,541	14,033,422	(3,147,624)	-	37,757,268	(41,893,110)	178,440,497

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 2015 or 2014.

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

For the years ended December 31, 2015 and 2014

11. Intangible Assets, Continued

(4) Individually significant intangible assets as of December 31, 2015 are as follows:

(In thousands of won)

	Description	Amount	Remaining useful lives
Subscriber lists	Customer relationship	₩ 2,270,457	1 ~ 5
Cable line usage rights	Submarine cable for international transmission line	3,188,173	4
	C2C cable 155M	2,632,848	6
	APCN2's 2MIU	4,665,542	6
	Korea-US international internet backbone network	2,751,526	11
Memberships	Golf and condo membership	8,486,351	Indefinite
License	Local phone service right	45,000,000	Indefinite
Other intangibles	B-box intangible asset	5,984,633	4
	New marketing system plan	2,404,162	1
	U-key improvement and development	2,724,167	3
	System improvement and development	13,658,000	4 ~ 5
	Server and video player development	4,180,169	2
	Btv broadcasting publication and caption right	3,765,002	1 ~ 4

12. Other Assets

Details of other assets as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

	December 31, 2015	December 31, 2014
Current Assets:		
Advance payments	₩ 215,742	13,388
Short-term prepaid expenses	39,127,236	26,060,672
Value added tax refundable	-	1,047,331
	₩ 39,342,978	27,121,391
Non-current Assets:		
Long-term prepaid expenses	₩ 36,758,441	17,536,194

SK BROADBAND CO., LTD.
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For the years ended December 31, 2015 and 2014

13. Borrowings and Debentures

(1) Short-term borrowings as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

Financial institution	Annual interest rate (%)		December 31, 2015	December 31, 2014
HI Investment & Securities	1.76	₩	30,000,000	31,000,000
Woori Investment Bank	1.58 ~ 1.61		-	30,000,000
Korea Exchange Bank	2.29		-	10,000,000
		₩	<u>30,000,000</u>	<u>71,000,000</u>

(2) Long-term borrowings as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

Lender	Annual interest rate (%)	Maturity		December 31, 2015	December 31, 2014
Shinhan Bank	2.39	2015.06.15	₩	-	1,712,160
Kookmin Bank	1.98	2016.06.15		1,624,820	4,874,460
Kookmin Bank	1.98	2017.03.15		2,498,300	4,496,940
Kookmin Bank	1.98	2018.03.15		6,449,940	8,600,000
Korea Development Bank	3.32	2019.07.30		39,000,000	39,000,000
Korea Development Bank	2.94	2019.07.30		10,000,000	10,000,000
				<u>59,573,060</u>	<u>68,683,560</u>
Less current portion of long-term borrowings				<u>(10,573,470)</u>	<u>(9,110,500)</u>
			₩	<u>48,999,590</u>	<u>59,573,060</u>

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

13. Borrowings and Debentures, Continued

(3) Debentures as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

	Issue date	Maturity	Annual interest rate (%)		December 31, 2015	December 31, 2014
36-1th Publicly issued bonds	2012.01.19	2015.01.19	4.09	₩	-	110,000,000
36-2th Publicly issued bonds	2012.01.19	2015.07.19	4.14		-	110,000,000
36-3th Publicly issued bonds	2012.01.19	2017.01.19	4.28		100,000,000	100,000,000
37-1th Publicly issued bonds	2012.10.12	2015.10.12	3.14		-	130,000,000
37-2th Publicly issued bonds	2012.10.12	2017.10.12	3.27		120,000,000	120,000,000
38-1th Publicly issued bonds	2014.04.02	2016.10.02	3.05		80,000,000	80,000,000
38-2th Publicly issued bonds	2014.04.02	2019.04.02	3.49		210,000,000	210,000,000
39th Publicly issued bonds	2014.09.29	2019.09.29	2.76		130,000,000	130,000,000
40-1th Publicly issued bonds	2015.01.14	2018.01.14	2.23		50,000,000	-
40-2th Publicly issued bonds	2015.01.14	2020.01.14	2.49		160,000,000	-
41th Publicly issued bonds	2015.07.15	2020.07.15	2.43		140,000,000	-
42th Publicly issued bonds	2015.10.06	2020.10.06	2.18		130,000,000	-
Foreign global bond(*)	2013.10.29	2018.10.29	2.88		351,600,000	329,760,000
					<u>1,471,600,000</u>	<u>1,319,760,000</u>
Less discounts on bonds					(6,028,342)	(5,885,011)
					<u>1,465,571,658</u>	<u>1,313,874,989</u>
Less current portion of bonds					(80,000,000)	(350,000,000)
Less current portion of discounts of bonds					116,213	230,982
				₩	<u><u>1,385,687,871</u></u>	<u><u>964,105,971</u></u>

(*) The Company issued Global bond with principal amount, USD 300 million and fixed interest rate 2.88% and entered into fixed-to-fixed currency swap contracts with Korea Development Bank (KDB) and other banks to hedge the foreign currency risk. (Note 17)

(4) The repayment schedule of long-term borrowings and debentures as of December 31, 2015 is as follows:

(In thousands of won)

		Long-term borrowings	Bonds payable in local currency	Bonds payable in foreign currency		Total
				USD	KRW equivalent	
Within 1 year	₩	10,573,470	80,000,000	-	-	90,573,470
1~3 years		36,749,600	588,420,000	-	-	625,169,600
3~5 years		12,249,990	451,580,000	300,000,000	351,600,000	815,429,990
	₩	<u>59,573,060</u>	<u>1,120,000,000</u>	<u>300,000,000</u>	<u>351,600,000</u>	<u>1,531,173,060</u>

SK BROADBAND CO., LTD.
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14. Other Financial Liabilities

(1) Details of other financial liabilities as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

		December 31, 2015	December 31, 2014
Lease Liabilities:			
Current portion of finance lease liabilities	₩	-	3,206,097
Long-term finance lease liabilities		-	-
	₩	-	3,206,097

(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, 2015 and 2014 are as follows:

(In thousands of won)

		December 31, 2015		December 31, 2014		
		Minimum lease payments	Interest expense	Present value	Minimum lease payments	Interest expense
Within 1 year	₩	-	-	-	3,286,158	80,061
1-5 years		-	-	-	-	-
	₩	-	-	-	3,286,158	80,061

(3) Operating Leases

The Company leases vehicles under operating lease arrangements with AJ Rent A Car Co., Ltd. and others. The future lease payments under operating leases as of December 31, 2015 are as follows:

(In thousands of won)

		Amount
Within 1 year	₩	758,109
1-3 years		540,273
More than 3 years		15,543
	₩	1,313,925

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For the years ended December 31, 2015 and 2014

15. Other Liabilities

Details of other liabilities as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

		December 31, 2015	December 31, 2014
Current Assets:			
Value Added Tax Withheld	₩	3,390,081	-
Short-term advanced receipts		19,011,137	14,991,152
		<u>22,401,218</u>	<u>14,991,152</u>
Non-current Assets:			
Long-term advanced receipts		1,758,094	2,694,900
Long-term employee benefits(*)		6,733,625	6,365,864
		<u>8,491,719</u>	<u>9,060,764</u>
	₩	<u>30,892,937</u>	<u>24,051,916</u>

(*) Long-term employee benefits are related to leave compensation and others in accordance with employees.

16. 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 assets 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 these leased lands, buildings and structures.

Change in provisions for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

		For the year ended December 31, 2015					As of December 31, 2015	
		Beginning balance	Increase	Utilization	Unwinding of interest	Ending balance	Current	Non- current
Provision for restoration	₩	3,532,428	92,997	-	64,130	3,689,555	-	3,689,555

(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

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For the years ended December 31, 2015 and 2014

17. Derivative Instruments

With reference to the Company's issuance of the Global bond with principal amount, USD 300 million and fixed interest rate 2.88% and the Company entered into fixed-to-fixed currency swap contracts with KDB and other banks to hedge the foreign currency risk.

Details of derivative contracts as of December 31, 2015 are as follows:

(In thousands of KRW and USD)

	Contract Period	Interest Rate	Principal amount	Accumulated valuation loss on derivatives	Accumulated foreign currency translation gain	Derivative assets
KDB and others	Oct.29, 2013 ~ Oct.29, 2018	3.60~3.62	USD 300,000	(6,393,339)	32,869,604	26,476,265

18. Defined Benefit Liabilities

(1) Details of defined benefit liabilities as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

	December 31, 2015	December 31, 2014
Present value of defined benefit obligations	₩ 66,943,575	49,978,878
Fair value of plan assets	-	-
	₩ 66,943,575	49,978,878

(2) Principal actuarial assumptions as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

	December 31, 2015	December 31, 2014
Discount rate	2.83%	3.26%
Expected rate of salary increase	5.50%	5.73%

(3) Changes in defined benefit obligations for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Beginning balance	₩ 49,978,878	34,084,166
Current service cost	14,028,810	13,224,991
Interest cost	1,764,774	1,591,172
Remeasurements		
- Demographic assumptions	(2,819,801)	3,273,490
- Financial assumption	2,328,434	5,368,737
- Adjustment based on experience	4,331,672	(6,084,705)
Benefit payments	(3,882,387)	(2,860,925)
Others(*)	1,213,195	1,381,952
Ending balance	₩ 66,943,575	49,978,878

SK BROADBAND CO., LTD.
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For the years ended December 31, 2015 and 2014

18. Defined Benefit Liabilities, Continued

(*) Others for the years ended December 31, 2015 and 2014 include transfer to construction-in-progress and liabilities succeeded in relation to transfer of executives and employees from affiliates.

(4) Expenses recognized in profit and loss for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Current service cost	₩ 14,028,810	13,224,991
Net Interest cost	1,764,774	1,591,172
	₩ 15,793,584	14,816,163

(5) As of December 31, 2015, 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%)	₩ (7,338,507)	8,588,112
Expected rate of salary increase (if changed by 1%)	8,493,087	(7,399,844)

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, 2015 and 2014 are 12.67 years and 12.37 years, respectively.

19. Share Capital and Capital Surplus and Other Capital Adjustments

(1) The number of issued and outstanding common shares, capital surplus and other capital adjustments as of December 31, 2015 and 2014 are as follows:

(In thousands of won, except for share data)

	December 31, 2015	December 31, 2014
Authorized shares	700,000,000	700,000,000
Par value per share (in won)	5,000	5,000
Issued shares	298,460,212	295,959,087
Share capital - Common stock	₩ 1,492,301,060	1,479,795,435
Capital surplus and other capital adjustments:		
Paid-in surplus	359,979,375	360,042,663
Others	(68,176,883)	(45,853,554)
	₩ 291,802,492	314,189,109

SK BROADBAND CO., LTD.
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For the years ended December 31, 2015 and 2014

19. Share Capital and Capital Surplus and Other Capital Adjustments, Continued

(2) Changes in number of issued shares for the years ended December 31, 2015 and 2014 are as follows:

(In shares)

	2015	2014
Beginning issued shares	295,959,087	295,959,087
New issue of stock due to business combinations	2,501,125	-
Ending issued shares	298,460,212	295,959,087

20. Reserves

(1) Details of reserves as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

	December 31, 2015	December 31, 2014
Unrealized changes in fair value of derivatives ₩	(6,393,339)	(8,895,076)

(2) Details of unrealized changes in fair value of derivatives for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Beginning balance ₩	(8,895,076)	(1,128,432)
Amount recognized as other comprehensive income during the year	2,501,737	(7,766,644)
Amount reclassified to profit or loss	-	-
Ending balance ₩	(6,393,339)	(8,895,076)

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For the years ended December 31, 2015 and 2014

21. Statements of Disposition of Deficit

Details of dispositions of accumulated deficit for the years ended December 31, 2015 and 2014 are as follows:

Date of disposition for 2015: March 25, 2016

Date of disposition for 2014: March 25, 2015

(In thousands of won)

		2015	2014
Undisposed accumulated deficit			
Undisposed accumulated deficit carried over from prior year	₩	663,477,913	665,227,885
Remeasurements of defined benefit liabilities		3,840,305	2,557,522
Loss for the year		(10,831,586)	(4,307,494)
		<u>656,486,632</u>	<u>663,477,913</u>
Disposition of accumulated deficit		<u>-</u>	<u>-</u>
Undisposed accumulated deficit carried forward to the following year	₩	<u><u>656,486,632</u></u>	<u><u>663,477,913</u></u>

22. Other Operating Expenses

Details of other operating expenses for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

		2015	2014
Other Operating Expenses:			
Rent	₩	30,982,350	28,642,767
Outsourcing services expenses		9,299,059	11,197,265
Taxes and dues		8,360,279	8,010,458
Travel expenses		3,263,248	2,991,326
Communication expenses		5,632,859	6,242,702
Training		2,157,045	2,199,797
Vehicle maintenance expenses		2,083,143	2,132,711
Consumables		4,555,427	5,618,461
Others		5,404,060	4,593,437
	₩	<u><u>71,737,470</u></u>	<u><u>71,628,924</u></u>

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23. Finance Income and Costs

(1) Details of finance income and costs for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Finance Income:		
Interest income	₩ 4,803,183	5,341,541
Gain on foreign currency translation	1,415,249	1,901,050
Gain on foreign currency transaction	702,558	664,706
Dividends	500	500
Gain on valuation of derivatives	21,667,923	13,031,680
	₩ <u>28,589,413</u>	<u>20,939,477</u>

(In thousands of won)

	2015	2014
Finance Costs:		
Interest expense	₩ 52,441,875	53,894,202
Loss on foreign currency translation	23,087,405	15,037,875
Loss on foreign currency transaction	2,600,624	702,824
Loss on impairment of long-term investment securities	-	6,113,812
	₩ <u>78,129,904</u>	<u>75,748,713</u>

(2) Details of interest income included in finance income for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Interest income on cash equivalents and financial instruments	₩ 1,663,246	2,152,068
Interest income on long-term trade and other receivables	2,959,617	3,183,497
Others	180,320	5,976
	₩ <u>4,803,183</u>	<u>5,341,541</u>

(3) Details of interest expense included in finance costs for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Interest expense on borrowings	₩ 3,703,499	3,483,864
Interest expense on debentures	48,164,869	49,655,308
Interest expense on lease liabilities	57,847	503,688
Others	515,660	251,342
	₩ <u>52,441,875</u>	<u>53,894,202</u>

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For the years ended December 31, 2015 and 2014

23. Finance Income and Costs, Continued

(4) Finance income and costs by categories of financial instruments for the years ended December 31, 2015 and 2014 are as follows:

(i) Finance income and costs

(In thousands of won)

	2015		2014	
	Finance income	Finance costs	Finance income	Finance costs
Financial Assets:				
Loans and receivables	₩ 6,411,279	298,731	7,251,021	135,470
Available-for-sale financial assets	500	-	500	6,113,812
Derivative designated as hedging instrument	21,667,923	-	13,031,680	-
	<u>28,079,702</u>	<u>298,731</u>	<u>20,283,201</u>	<u>6,249,282</u>
Financial Liabilities:				
Accounts payable - other	337,635	3,549,298	517,956	2,686,571
Financial liability measured as amortized cost (except accounts payable - other)	172,076	74,281,875	138,320	66,812,860
	<u>509,711</u>	<u>77,831,173</u>	<u>656,276</u>	<u>69,499,431</u>
	<u>₩ 28,589,413</u>	<u>78,129,904</u>	<u>20,939,477</u>	<u>75,748,713</u>

(ii) Other comprehensive income (loss)

(In thousands of won)

	2015	2014
Financial Assets:		
Derivative designated as hedging instrument	₩ 2,501,737	(7,766,644)
Financial Liabilities:		
Derivative designated as hedging instrument	₩ -	-

(5) Details of impairment losses for financial assets for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Impairment loss for available-for-sale financial assets	₩ -	6,113,812
Bad debt for accounts receivable - trade	15,989,867	13,828,432
Bad debt for accounts receivable - other	46,047	551,448
	<u>₩ 16,035,914</u>	<u>20,493,692</u>

SK BROADBAND CO., LTD.
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For the years ended December 31, 2015 and 2014

24. Other Non-operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Other Non-operating Income:		
Gain on disposal of property, plant and equipment and intangible assets	₩ 1,960,211	3,015,157
Miscellaneous income	3,692,599	9,488,846
	₩ 5,652,810	12,504,003
Other Non-operating Expenses:		
Loss on disposal of property, plant and equipment and intangible assets	28,774	69,497
Loss on disuse of property, plant and equipment	2,534,121	2,628,267
Donations	97,706	183,822
Miscellaneous losses	6,178,192	8,896,608
	₩ 8,838,793	11,778,194

25. Income Tax Expense

(1) Income tax expenses for the years ended December 31, 2015 and 2014 consist of the following:

(In thousands of won)

	2015	2014
Current taxes	-	-
Deferred taxes	-	-
Income tax expense	₩ -	-

(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, 2015 and 2014 is attributable to the following:

(In thousands of won)

	2015	2014
Profit before income tax	₩ 10,831,586	4,307,494
Tax calculated at statutory tax rate	2,360,949	925,649
Tax effect of:		
Non-deductible expenses	557,457	552,002
Recognition of previously unrecognized tax losses	(1,398,803)	(7,319,280)
Others (unrecognized deferred tax, etc.)	(1,519,603)	5,841,629
	(2,360,949)	(925,649)
Income tax expense	₩ -	-

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25. Income Tax Expense, Continued

- (3) Details of deferred tax assets which were not recognized due to the uncertainty of realization as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Deductible temporary differences	₩ 63,389,402	62,617,062
Tax loss carryforwards	81,014,049	95,840,536
	₩ 144,403,451	158,457,598

- (4) The expirations of tax loss carryforwards which are not recognized as deferred tax asset as of December 31, 2015 are as follows:

(In thousands of won)

	Tax loss carryforwards
More than 3 years	₩ 368,245,676

26. Earnings per Share

- (1) Basic earnings per share for the years ended December 31, 2015 and 2014 are calculated as follows:

(In thousands of won, shares)

	2015	2014
Profit for the year	₩ 10,831,586	4,307,494
Weighted average number of common shares outstanding	296,795,079	295,959,087
Basic earnings per share (In won)	₩ 36	15

- (2) Weighted average number of common shares for the years ended December 31, 2015 and 2014 are calculated as follows:

(In shares)

	2015	2014
Beginning issued shares	295,959,087	295,959,087
New issue of stock due to business combinations	835,992	-
Weighted average number of common shares outstanding	296,795,079	295,959,087

- (3) Diluted earnings per share are not calculated since there was no potential common stock for the years ended December 31, 2015 and 2014.

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For the years ended December 31, 2015 and 2014

27. Categories of Financial Instruments

(1) Financial assets by categories as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

December 31, 2015				
	Available-for-sale financial assets	Loans and receivables	Derivative financial instruments designated as hedged item	Total
Cash and cash equivalents	₩ -	82,270,601	-	82,270,601
Financial instruments	-	1,727,000	-	1,727,000
Long-term investment securities	5,381,358	-	-	5,381,358
Trade and other receivables				
Accounts receivable – trade	-	392,211,542	-	392,211,542
Loans	-	19,534,285	-	19,534,285
Accounts receivable - other	-	714,651	-	714,651
Accrued income	-	10,634	-	10,634
Guarantee deposits	-	45,511,586	-	45,511,586
Derivative financial assets	-	-	26,476,265	26,476,265
	₩ <u>5,381,358</u>	<u>541,980,299</u>	<u>26,476,265</u>	<u>573,837,922</u>

(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>

SK BROADBAND CO., LTD.
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27. Categories of Financial Instruments, Continued

(2) Financial liabilities by categories as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

December 31, 2015			
	Financial liabilities measured at amortized cost	Derivative financial instruments designated as hedged item	Total
Other accounts payable and liabilities			
Other payable	₩ 236,802,089	-	236,802,089
Withholdings	42,183,742	-	42,183,742
Accrued expenses	222,998,562	-	222,998,562
Deposits received	11,828,592	-	11,828,592
Borrowings	89,573,060	-	89,573,060
Debentures	1,465,571,658	-	1,465,571,658
Finance lease liabilities	-	-	-
	<u>₩ 2,068,957,703</u>	<u>-</u>	<u>2,068,957,703</u>

(In thousands of won)

December 31, 2014			
	Financial liabilities measured at amortized cost	Derivative financial instruments designated as hedged item	Total
Other accounts payable and liabilities			
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
	<u>₩ 1,911,863,616</u>	<u>-</u>	<u>1,911,863,616</u>

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28. 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 3. Details of the carrying amount or book value for each category of financial assets and liabilities are disclosed in Note 27.

1) Market risk

(i) Currency risk

The Company is exposed to currency risk mainly on exchange fluctuations on monetary 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, 2015 are as follows:

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

		December 31, 2015	
		Foreign currencies	KRW equivalents
Foreign Currency Assets:			
Cash and cash equivalents	USD	408.96	₩ 479
	JPY	2,764,399.00	26,870
Trade receivables	USD	25,362,865.67	29,725,279
	JPY	915,000.00	8,894
	USD	25,363,274.63	
	JPY	3,679,399.00	₩ 29,761,522
Foreign Currency Liabilities:			
Debentures	USD	297,636,310.77	₩ 348,829,756
Other payable	USD	24,598,271.60	28,829,174
	CNY	213.00	38
	USD	322,234,582.37	
	CNY	213.00	₩ 377,658,968

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28. Financial Risk Management, Continued

(1) Financial risk management, Continued

As of December 31, 2015, 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(*)	₩	89,658	(89,658)
JPY		3,576	(3,576)
CNY		(4)	4

(*) The effect of change in exchange rate of foreign currency debentures is excluded as they are fully hedged using currency swap as discussed in note 17.

(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, 2015, 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. As of December 31, 2015, floating-rate borrowings amount to ₩10,573,060 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, 2015 would have been decreased or increased by ₩105,731 thousands due to the changes in interest expense from floating-rate borrowings. The amount of maximum exposure to credit risk of the Company is the carrying amount of financial assets as of December 31, 2015.

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, 2015 and 2014 are as follows:

(In thousands of won)

		December 31, 2015	December 31, 2014
Loans and receivables	₩	541,978,427	501,825,267
Derivative financial assets		26,476,265	2,306,604
	₩	<u>568,454,692</u>	<u>504,131,871</u>

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28. Financial Risk Management, Continued

(1) Financial risk management, Continued

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

For the year ended December 31, 2015, 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.

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 5.

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, 2015 are as follows:

(In thousands of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Borrowings	₩ 89,573,060	93,555,909	42,320,508	51,235,401	-
Debentures(*1)	1,465,571,658	1,574,994,520	123,793,290	1,451,201,230	-
Accounts payable - other (*2)	513,812,985	516,570,511	496,618,110	18,355,047	1,597,354
	₩ <u>2,068,957,703</u>	<u>2,185,120,940</u>	<u>662,731,908</u>	<u>1,520,791,678</u>	<u>1,597,354</u>

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

(*2) Excludes discounts on other accounts payable and liabilities.

(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 is the same as the prior year.

The Company monitors its debt to 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.

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For the years ended December 31, 2015 and 2014

28. Financial Risk Management, Continued

(2) Capital management, Continued

Debt-equity ratio as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

	December 31, 2015	December 31, 2014
Liabilities	₩ 2,170,483,770	1,989,426,838
Equity	1,121,223,581	1,121,611,555
Debt-equity ratio	194%	177%

(3) Fair value

- 1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2015 are as follows:

(In thousands of won)

		December 31, 2015			
		Carrying amount	Fair value		
			Level 1	Level 2	Level 3
					Total
Financial assets					
measured at fair value					
Derivative financial assets	₩	26,476,265	-	26,476,265	-
Financial assets not measured at fair value					
Cash and cash equivalents(*1)		82,270,601	-	-	-
Available-for-sale financial assets(*1,2)		5,381,358	-	-	-
Trade and other receivables (*1)		457,982,698	-	-	-
Financial instruments(*1)		1,727,000	-	-	-
	₩	<u>547,361,657</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities not measured at fair value					
Borrowings	₩	89,573,060	-	89,976,437	-
Debentures		1,465,571,658	-	1,494,757,453	-
Lease Liabilities		-	-	-	-
Accounts payable - other(*1)		513,812,985	-	-	-
	₩	<u>2,068,957,703</u>	<u>-</u>	<u>1,584,733,890</u>	<u>-</u>

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

For the years ended December 31, 2015 and 2014

28. Financial Risk Management, Continued

(3) Fair value, Continued

2) 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	Fair value			
			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	-	-	-	-
	₩	507,841,254	-	-	-	-
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	-	-	-	-
	₩	1,911,863,616	-	1,508,001,954	-	1,508,001,954

(*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, 2015 are as follows:

	Discount rate
Derivative instruments	1.93% ~ 2.61%
Borrowings, debentures and others	2.29%

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

For the years ended December 31, 2015 and 2014

28. 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, 2015 and 2014 are as follows:

(In thousands of won)

(In thousands of won)		December 31, 2015					
		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	₩ 4,704,314	(4,704,314)		-	-	-	-
Financial liabilities:							
Accounts payable – other		7,442,707	(4,704,314)	2,738,393	-	-	2,738,393

(In thousands of won)

(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)	-	-	-	-

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

29. Transactions with Related Parties

(1) Details of parent and subsidiary relationship as of December 31, 2015 is as follows:

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

(3) Significant transactions such as sales of goods, purchases of raw material and others, with related parties for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

Classification	Company	2015		
		Operating revenue and others	Operating expense and others	Acquisition of assets
Ultimate Controlling Entity	SK Holdings Co., Ltd. (formerly, SK Holdings Co., Ltd.)(*1)	₩ 9,852	3,802,446	-
	SK Holdings Co., Ltd. (formerly, SK C&C Co., Ltd.)(*2)	10,063,095	44,487,040	67,249,678
Immediate Controlling Entity	SK Telecom Co., Ltd.	592,731,976	117,454,992	8,775,462
Other related parties	F&U Credit information Co., Ltd.	505,695	3,545,734	-
	SK Telink Co., Ltd.	9,731,392	4,968,901	4,400
	SK Communications Co., Ltd.	1,173,948	8,731	-
	PS&Marketing Corporation	166,944	5,199,653	36,705
	Service Ace Co., Ltd.	766,478	50,828,524	-
	Service Top Co., Ltd.	1,646,288	31,040,948	-
	Network O&S Co., Ltd.	229,612	2,021,468	-
	Television Media Korea Co., Ltd.(*3)	3,602,343	5,564,564	-
	SK Planet Co., Ltd.	26,927,566	9,065,569	22,759
	SK hynix Inc.	4,331,361	-	-
	M&Service Co., Ltd.	686,510	4,573,588	-
	SK Engineering & Construction Co., Ltd.	756,544	7,187,712	80,988,769
	SK TNS Co., Ltd.(*4)	2,617	6,769,678	44,869,938
	SK Telesys Co., Ltd.	151,431	12,630,668	91,066,115
	Infosec Co., Ltd.	29,632	7,165,716	4,676,147
	SK Networks Co., Ltd.	1,259,832	844,481	14,866,600
	SK Networks Services Co., Ltd.	177,134	41,628,842	784,187
	Others	1,460,641	2,448,964	6,233,536
		₩ 656,410,891	361,238,219	319,574,296

(*1) These relates to transactions occurred until July 31, 2015 before the merger with SK C&C Co., Ltd.

(*2) On August 1, 2015, SK C&C Co., Ltd., the Ultimate Controlling Entity's investor using equity method, merged SK Holdings Co., Ltd., the ultimate controlling entity of the Company, and changed its name to SK Holdings Co., Ltd.

(*3) Excluded from related party since SK Planet disposed stocks of Television Media Korea Co., Ltd. on September 30, 2015.

(*4) On September 8, 2015, SK TNS Co., Ltd. was spun off from SK Engineering & Construction Co., Ltd.

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

For the years ended December 31, 2015 and 2014

29. Transactions with Related Parties, Continued

(In thousands of won)

Classification	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 related parties	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
		₩	<u>653,556,130</u>	<u>432,963,493</u>	<u>384,804,740</u>

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

29. Transactions with Related Parties, Continued

(4) Trade accounts and notes receivable and payable as of December 31, 2015 and 2014 are as follows:

(In thousands of won)

		December 31, 2015			
Classification	Company	Receivables		Payables	
		Trade Receivables	Others	Accounts payable - other	Others
Ultimate Controlling Entity	SK Holdings Co., Ltd. (formerly, SK C&C Co., Ltd.)(*1)	-	-	24,666,470	10,533,678
Immediate Controlling Entity	SK Telecom Co., Ltd.	19,425,492	5,421,440	975,938	1,061,718
Other related parties	SK Telink Co., Ltd.	114,595	-	95,015	47,600
	SK Communications Co., Ltd.	102,643	-	2,699	-
	PS&Marketing Corporation	-	-	42,811	-
	Service Ace Co., Ltd.	129	-	4,073,954	1,553,933
	Service Top Co., Ltd.	36,347	-	2,222,247	1,059,626
	Network O&S Co., Ltd.	272	-	-	60,000
	SK Planet Co., Ltd.	96,810	-	1,920,641	223,950
	M&Service Co., Ltd.	-	-	216,790	-
	SK TNS Co., Ltd.(*2)	-	-	14,332,649	-
	SK Telesys Co., Ltd.	-	-	17,567,946	16,307,822
	Infosec Co., Ltd	4,554	-	1,765,169	434,500
	SK Networks Co., Ltd.	46,267	12,322	334,870	447,220
	SK Networks Services Co., Ltd.	-	-	240,900	-
	Others	31	-	3,814,420	-
		<u>₩ 19,827,140</u>	<u>5,433,762</u>	<u>72,272,519</u>	<u>31,730,047</u>

(*1) On August 1, 2015, SK C&C Co., Ltd. merged its equity method investee, SK Holdings Co., Ltd. and then changed its name into SK Holdings Co., Ltd.

(*2) On September 8, 2015, SK TNS Co., Ltd. was spun off from SK Engineering & Construction Co., Ltd.

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

For the years ended December 31, 2015 and 2014

29. Transactions with Related Parties, Continued

(In thousands of won)

		December 31, 2014			
Classification	Company	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

(4) Key management personnel compensation

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, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Salaries	₩ 1,042,709	1,136,064
Expenses related to defined benefit plan	188,663	250,876
	₩ 1,231,372	1,386,940

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

30. Commitments

- (1) The Company entered into credit agreements with several banks including Shinhan bank which allow borrowings up to ₩100 billion as of December 31, 2015.
- (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 ₩1,219 million as of December 31, 2015. (Note 4)
- (4) The Company's buildings have been provided as collateral for an amount of ₩10,200 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, 2015, the Company is provided contract guarantee amounting to ₩18,527 million by Seoul Guarantee Insurance.
- (7) As of December 31, 2015, the Company is provided guarantee of payment amounting to ₩100 million by Kookmin Bank.

31. Litigations

- (1) Significant litigations in which the Company is a plaintiff as of December 31, 2015 are as follows:

(In thousands of won)

	<u>Date of litigation</u>	<u>Litigation amounts</u>
Withdrawal of compensation	October, 2014	₩ 715,121
Claim for damage Other	March, 2015	164,641
		₩ <u>879,762</u>

- (2) Significant litigations in which the Company is a defendant as of December 31, 2015 are as follows:

(In thousands of won)

	<u>Date of litigation</u>	<u>Litigation amounts</u>
Claim for damage from Mac Telecom.Inc. and 7 entities	January, 2012	₩ 3,560,465
Others		509,184
		₩ <u>4,069,649</u>

The final outcome of the above litigations cannot be determined as of December 31, 2015. However, the Company believes that the final outcome of these litigations will not have a materially adverse impact on its financial statements.

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

For the years ended December 31, 2015 and 2014

32. Statements of Cash Flows

- (1) Adjustments for income and expenses from operating activities for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Interest income	₩ (4,803,183)	(5,341,541)
Dividends	(500)	(500)
Gain on foreign currency translation	(1,415,249)	(1,901,050)
Gain on disposal of property and equipment and intangible assets	(1,960,211)	(3,015,157)
Share of gain of associates	(241,121)	(1,264,037)
Gain on valuation of derivatives	(21,667,923)	(13,031,680)
Interest expense	52,441,875	53,894,202
Loss on foreign currency translation	23,087,405	15,037,875
Provision for retirement benefits	15,793,584	14,816,163
Depreciation and amortization	518,968,220	489,482,920
Bad debt for accounts receivable	16,035,914	14,379,880
Loss on disposal of property and equipment and intangible assets	28,774	69,497
Loss on abandonment of property and equipment and intangible assets	2,534,121	2,628,267
Share of loss of associates	407,976	751,396
Loss on disposal of investment in associates	-	275,889
Loss on disposal of lease assets	92,033	362,660
Loss on impairment of investment securities	-	6,113,812
Other expenses	1,050,365	1,068,631
	<u>₩ 600,352,080</u>	<u>574,327,227</u>

- (2) Changes in assets and liabilities from operating activities for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Change in accounts receivable – trade	₩ 1,761,061	5,721,058
Change in accounts receivable – other	3,854,023	(56,381)
Change in advance payments	(139,804)	(731)
Change in prepaid expenses	(32,386,281)	(20,074,033)
Change in inventories	1,841,649	(995,180)
Change in other current assets	729,608	7,177,603
Change in long-term trade receivables	553,435	2,036,713
Change in accounts payable – other	5,930,942	(58,914,712)
Change in advanced receipts	2,848,789	1,485,752
Change in withholdings	12,349,243	(4,120,103)
Change in accrued expenses	31,664,843	(27,652,608)
Change in other liabilities	(2,231,200)	(1,044,966)
Change in defined benefit liabilities	438,866	711,484
Change in retirement benefit payment	(3,882,387)	(2,860,925)
	<u>₩ 23,332,787</u>	<u>(98,587,029)</u>

SK BROADBAND CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2015 and 2014

32. Statements of Cash Flows, Continued

(3) Significant non-cash transactions for the years ended December 31, 2015 and 2014 are as follows:

(In thousands of won)

	2015	2014
Transfer of construction-in-progress to property and equipment	₩ 185,235,250	292,717,313
Accounts payable related to acquisition of property and equipment and others	11,467,291	13,825,432
Expiration of stock option	-	4,763,304

33 Operating Segments

- (1) The Company determined that it has a single operating segment considering the nature of goods and services and characteristics of network assets. Accordingly, there is no separate segment information provided.
- (2) 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.

34 Business Combinations

On September 1, 2015, the Company merged Hoppin business, a spun off from SK Planet Co., Ltd. with the approval of the board of directors on July 29, 2015.

- (1) General information

The Company acquired hoppin service division of SK Planet Co., Ltd. in order to enhance the capability of SK broadband's mobile media business and to develop Btv mobile as a platform of mobile media in domestic markets.

The transaction is a business combination under common control. The Group recognized the acquired assets and liabilities at book value and the difference between the consideration and book value of net assets as other capital adjustments.

- (2) Consideration paid

SK Broadband issued 2,501,125 new common stocks to SK Telecom Co., Ltd. as merger consideration, and there is no other consideration or conditional payment made other than the common stocks issued.

	information
Exchange ratio of stock	Issue of 0.0349186 common stock of SK Broadband per one common stock of SK Planet Co., Ltd.
Merger date	September 1, 2015

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

For the years ended December 31, 2015 and 2014

34 Business Combinations, Continued

(3) Identifiable assets acquired and liabilities assumed

Book values of identifiable net assets at the acquisition date are as follows :

	Amount
Cash and cash equivalents	₩ 2,034,251
Trade and other receivables, net	2,001,792
Property and equipment, net	681,220
Intangible assets, net	10,946,187
Other assets	356,426
Accounts payable - other	(3,956,077)
Other liabilities	(18,511)
Net assets	₩ 12,045,288

35 Merger resolution

On November 2, 2015, the Company's board of directors authorized the merger with CJ HelloVision Co., Ltd. SK Broadband Co., Ltd. will be merged into CJ HelloVision Co., Ltd. after the merger which is expected to take place on April 1, 2016.

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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, 2015. 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, 2015, 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, 2015 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, 2015. We did not review the Company's IACS subsequent to December 31, 2015. 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 23, 2016

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, 2015.

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, 2015, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

February 11, 2016

/s/ Internal Accounting Control Officer

/s/ Chief Executive Officer