

ANNUAL FINANCIAL REPORT OF KT CORPORATION

(From January 1, 2010 to December 31, 2010)

April 29, 2011

Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

Dear Sir/Madam,

I, Thomas Bum Joon Kim, Managing Director of KT Corporation ("KT"), as the person responsible for the submission of the annual financial report pursuant to Section 18.4.3A of Listing Rule and Section 4.1.3R of Disclosure and Transparency Rule, have reviewed the information contained herein and find that, to the best of my knowledge and having taken all reasonable care to ensure accuracy the information is in accordance with the facts and contains no omission likely to affect its import.

In particular, I confirm that:

(a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of KT and its subsidiaries included in the consolidation taken as a whole; and

(b) the management report includes a fair review of the development and performance of the business and the position of KT and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, all information provided by third parties has been accurately reproduced and, as far as KT is aware and is able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Yours faithfully,



Name: Thomas Bum Joon Kim
Position: Managing Director

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(EXHIBIT 99-1 : NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010 AND 2009 AND INDEPENDENT AUDITORS' REPORT)

(EXHIBIT 99-2 : CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010 AND 2009 AND INDEPENDENT AUDITORS' REPORT)

I. Corporate General

1. Corporate Purpose of KT Corporation

Business Objectives
<ol style="list-style-type: none">1. Information and communications business;2. New media business;3. Development and sale of software and contents;4. Sale and distribution of information communication equipment;5. Testing and inspection of information communication equipment, devices and facilities;6. Advertisement business;7. Telecommunications retail business;8. Development of information and technology, and electrical infrastructure;9. Real estate and housing business;10. Electronic banking and finance business;11. Education and learning services business;12. Security services business (including machinery system surveillance services and facilities security services);13. Research and technical development, education, training and promotion, overseas businesses, export and import trade, manufacturing and distribution related to the activities mentioned in items 1 through 12;14. Telecommunications services business, including frequency-based telecommunications business;15. Value-added telecommunications business;16. Production, supply (screening) and distribution of music albums, music videos, movies, videos and games.17. Electronic finance and electronic payment gateway services, including issuance and management of pre-paid electronic payment methods;18. Sales and leasing of equipment and facilities related to the activities mentioned in items 14 through 17;19. Overseas and export and import trade related to activities mentioned in items 14 through 18;20. Travel agency business;21. (Deleted)22. Alternative energy generation business23. Health Bioinformatics business24. Military telecommunication equipment manufacturing business; and25. Any and all other activities or businesses incidental to or necessary for the attainment of the foregoing.

2. History

A. Changes since Incorporation

(1) Date of Incorporation: December 10, 1981

(2) Location of Headquarters:

206 Jungja-dong
Bundang-gu, Sungnam
Kyunggi-do
463-711
Korea

(3) Major Changes in KT Corporation

- On March 27, 2009, KT Corporation (“KT”) signed a merger agreement with its mobile subsidiary KTF, which KT held a 54.25% interest in, and on June 1, 2009, the merger was completed.

- At the annual shareholders’ meeting held on March 11, 2011, KT shareholders approved the addition of health bioinformatics business to KT’s business objectives, which is a new emerging industry that integrates IT with

genetic data information sequencing, computation, accumulation, and application. The shareholders also approved the addition of military communication equipment, device and facility manufacturing to its business objectives.

- Hyun Nak Lee and Byong Won Bahk were newly elected as non-executive independent directors and members of audit committee on March 11, 2011.

3. Total Number of Shares and Related Matters

A. Total Number of Shares

(As of March 31, 2011)

(Unit: Shares)

Category		Type of Shares	
		Common Shares	Total
I. Total Number of Authorized Shares		1,000,000,000	1,000,000,000
II. Total Number of Issued Shares		312,899,767	312,899,767
III. Total Number of Shares Reduced		51,787,959	51,787,959
	1. Reduction of Capital	-	-
	2. Share Retirement	51,787,959	51,787,959
	3. Redemption of Redeemable Shares	-	-
	4. Other	-	-
IV. Current Number of Issued Shares (II – III)		261,111,808	261,111,808
V. Number of Treasury Shares		17,893,291	17,893,291
VI. Current Number of Issued and Outstanding Shares		243,218,517	243,218,517

B. Status of Capital Increase/Decrease

(Unit: Won, Shares)

Date of Shares Issued (Retired)	Type of Shares Issued (Retired)	Details of Issued (Retired) Shares				
		Type	Number of Issued (Retired) Shares	Par Value per Share	Par Value of Issued per Share	Note
June 2, 2009	-	Common Shares	700,108	5,000	5,000	Issuance of new shares for merger

* In the merger with KTF, KT issued 700,108 new shares. As a result, the capital amount increased by approximately Won 3.5 billion as follows.

(Unit: Won)

Category	Before Merger	Amount of Change	After Merger
Capital Amount	1,560,998,295,000	3,500,540,000	1,564,498,835,000

C. Acquisition and Disposal of Treasury Shares

(1) Acquisition and Disposal of Treasury Shares

(As of March 31, 2011)

(Unit: Shares)

Method of Acquisition		Type	Beginning of Term	Acquisition (+)	Disposition (-)	Retirement (-)	End of Term
Direct Acquisition	Pursuant to Article 165-2	Common Shares	16,155,938	1,259,170	-	-	17,415,108

on	of Securities and Exchange Act	Preferred Shares	-	-	-	-	-
	Reasons other than Article 165-2 of Securities and Exchange Act	Common Shares	500,232	7,311	29,360	-	478,183
		Preferred Shares	-	-	-	-	-
Subtotal		Common Shares	16,656,170	1,266,481	29,360	-	17,893,291
		Preferred Shares	-	-	-	-	-
Indirect Acquisition (e.g. Trust Contract)		Common Shares	1,259,170	-	1,259,170	-	0
		Preferred Shares	-	-	-	-	-
Total		Common Shares	17,915,340	1,266,481	1,288,530	-	17,893,291
		Preferred Share	-	-	-	-	-

* The above “Beginning of Term” means as of January 1, 2010 and “End of Term” means as of March 31, 2011.

* Details of share buyback and retirement of treasury shares from January 1, 2010 to March 31, 2011 are as follows.

1) Acquisition of Treasury Shares (1,266,481 shares)

- March 9, 2010: Transfer of all treasury shares under trust account to KT’s own trust account due to the expiry of the treasury share trust agreement (1,259,170 shares)
- April 29, 2010: Retrieval of granted treasury shares (7,311 shares)

2) Disposition of Treasury Shares (1,288,530 shares)

- March 9, 2010: Transfer of all treasury shares under trust account to KT’s own trust account due to the expiry of the treasury share trust agreement (1,259,170 shares).
- May 3, 2010: Disposition of treasury shares to distribute long-term performance based bonus payment to non-independent directors (18,427 shares)
- June 30, 2010: Disposition of treasury shares in connection with the exercise of stock options (2,559 shares)
- July 21, 2010: Disposition of treasury shares in connection with the exercise of stock options (1,767 shares)
- August 13, 2010: Disposition of treasury shares in connection with the exercise of stock options (1,875 shares)
- September 17, 2010: Disposition of treasury shares in connection with the exercise of stock options (2,059 shares)
- January 14, 2011: Disposition of treasury shares in connection with the exercise of stock options (2,673 shares)

D. Share Ownership Status of the Employee Stock Ownership Association

(1) Transactions with the Employee Stock Ownership Association

Not Applicable

(2) Guidelines for Exercising the Voting Rights of the Employee Stock Ownership Association

Association Account: The Employee Stock Ownership Association exercises its voting right in a manner that is exactly in proportion to the number of association members who wish to exercise their voting rights.

Association Member Account: Employee Stock Ownership Association may exercise its voting rights only if (i) the association receives a request by an association member to exercise his voting rights with a minimum notice period of seven days or (ii) the association member chooses to delegate his voting rights to the association.

(3) Shares Held by the Employee Stock Ownership Association

(As of December 31, 2010)

(Unit: Shares)

Type of Account	Type of Shares	Balance at Beginning of Term	Term-End Balance
Association Account	Common Shares	34,950	34,888
Association Member Account	Common Shares	7,570,213	4,034,259
Total		7,605,136	4,069,147

4. Voting Rights

(As of March 31, 2011)

(Unit: Shares)

Category		Number of Shares	Note
Total Issued Shares (A)	Common Shares	261,111,808	-
	Preferred Shares	-	
Shares without Voting Rights (B)	Common Shares	17,896,545	Including Treasury Shares
	Preferred Shares	-	
Shares with Restricted Voting Rights under the Stock Exchange Act and Other Laws (C)	-	-	-
Shares with Reestablished Voting Rights (D)	-	-	-
Shares with Exercisable Voting Rights (E = A - B - C + D)	Common Shares	243,215,263	-
	Preferred Shares	-	

(1) Shares without voting rights under the Commercial Code of Korea: 17,893,291 treasury shares held through treasury stock funds and 3,254 cross holding shares.

5. Dividends and Related Matters

A. Dividends

The shareholder return policy of KT is to pay its shareholders at least 50% of the adjusted net profit of the current term, through cash dividends and acquisition of treasury stock of the Company.

B. Dividends Paid during the Past Three Fiscal Years

Category		2010	2009	2008
Par Value per Share (Won)		5,000	5,000	5,000
Net Profit of the Current Term (in Millions of Won)		1,171,866	516,533	449,810
Net Profit per Share (Won)		4,818	2,353	2,217
Year-end Cash Dividend (in Millions of Won)		586,150	486,393	226,280
Year-end Share Dividend (in Millions of Won)		-	-	-
Cash Dividend Propensity (%)		50.0	94.2	50.3
Rate of Return on Cash	Common Shares	5.0	4.9	2.9

Dividend (%)	Preferred Shares	-	-	-
Rate of Return on Share	Common Shares	-	-	-
Dividend (%)	Preferred Shares	-	-	-
Cash Dividend per Share (Won)	Common Shares	2,410	2,000	1,120
	Preferred Shares	-	-	-
Share Dividend per Share (Share)	Common Shares	-	-	-
	Preferred Shares	-	-	-

II. Business Details

1. Overview

A. Present Conditions of the Industry

(1) Characteristics of the Industry

The existing markets for fixed-line telephones, broadband Internet and mobile communications in Korea have reached their maturity. At the same time, with technical advances and changes in customer demands, the communications industry has recently been moving towards a convergence with different technologies and industries. KT successfully shifted the mobile industry paradigm from voice-centric market to data-centric market by introducing the iPhone from Apple in the Korean market at the end of 2009. KT further strengthened its handset competitiveness by introducing various other smart phone handsets, such as iPhone4(Apple), Nexus-One(HTC), Optimus-One(LGE), Desire HD(HTC), and Streak(Dell) during 2010. In addition, KT is seeking to strategically expand its 3W(WCDMA, WiFi, WiBro) network in anticipation of an explosion in data network usage in the near future. KT also introduced various bundle services such as 'olleh Toong', Family Sponsor' to maintain and further strengthen its fixed and mobile subscriber base.

(2) Growth of the Industry

(Unit: 1,000 Persons)

Category	December 31, 2005	December 31, 2006	December 31, 2007	December 31, 2008	December 31, 2009	December 31, 2010
Broadband Internet Subscribers	12,191	14,043	14,710	15,475	16,349	17,224
Local Telephone Subscribers	22,920	23,119	23,130	22,132	20,090	19,273
Mobile Phone Subscribers	38,342	40,197	43,498	45,607	47,944	50,767

* The 2005 to 2007 data was provided by the Ministry of Information and Communication (www.mic.go.kr).

* The 2008 to 2010 data was provided by the Korea Communications Commission (www.kcc.go.kr).

(3) Characteristics of Market Fluctuations

The demand for communications services does not fluctuate greatly as such services are regarded as a necessity in modern life. However, if the Korean economy slows in the future, it could have an adverse impact on KT's business activities.

(4) Competition

(a) Competing Companies

- Local calls: SK Broadband, LG U+, etc.
- Long distance calls: LG U+, Onse Telecom, SK Broadband, SK Telink, etc.
- International calls: LG U+, Onse Telecom, SK Broadband, SK Telink, etc.
- Broadband Internet: SK Broadband, LG U+, Service Operators (including cable television, relay wired broadcasting operators), etc.

- Mobile communications: SK Telecom, LG U+, etc.
- Internet telephones using Internet Protocol (“VoIP”): SK Broadband, SK Networks, SK Telink, Samsung Networks, LG U+, Korea Cable Telecom, etc.
- IPTV: SK Broadband, LG U+
- Mobile Internet (WiBro service): SK Telecom
 - LG U+, or LG Uplus Corp, is the new company name of LG telecom that merged with LG Dacom and LG Powercom effective as of January 1, 2010.

(b) Market Entry Requirements

- Communication service providers: business operations must be approved by the Korea Communications Commission
- Specific telecommunications service providers: registration is required
- Value-added telecommunications service providers: reporting is required

(c) Factors of Competition: service fees, product quality, marketing power, brand value and competitiveness of the distribution network, etc.

(5) Relevant Laws and Government Regulations

(a) Relevant Laws

- Telecommunications policy-related laws
Telecommunications Basic Act, Telecommunications Business Act (total 7)
- Radio and broadcasting policy-related laws
Radio Regulation Law
- Information related laws
Promotion of Information and Communication Basic Act (total 9)
- Broadcast related laws
Broadcasting Law, Internet Multimedia Broadcasting Business Law (IP-TV related), etc.

(b) Government Regulations

The Korea Communications Commission is responsible for managing the convergence between broadcasting and communications, as well as assuring their independence and role of providing public services. The commission is also responsible for issuing relevant licenses, permits, approvals, policy enactments and other matters relating to the promotion of broadcasting and communications and the enhancement of their global competitiveness.

The statements included in the above sections are based on KT's forecasts and are offered for the sole purpose of providing a better understanding of the company's current state. Consequently, investors must not rely solely on KT's forecasts when making their investment decisions.

B. Current Status of KT

(1) Operations Outlook and Classification of Business

(a) Operations Outlook

The Korean communications market is currently experiencing stagnant growth as major services, including fixed-line telephones, broadband Internet and mobile communications, have reached maturity, caused in part by intense competition in the industry. Despite the unfavorable environment, the convergence of the telecommunications and broadcasting industries, such as IPTV and VoIP, and the convergence of fixed and mobile services (FMC) are leading the growth of the telecommunications market.

On June 1, 2009, KT completed a merger with KTF, its mobile subsidiary, to overcome stagnant growth in the existing communications market, realize growth in new markets, and expand differentiated core capabilities. In addition, KT is also building a solid foundation for growth by introducing new services based on its group synergy, such as QOOK TV SkyLife (hybrid media service providing DMB channels from SkyLife and Video on Demand or VOD from QOOK TV, KT's IPTV) and FMC services. Furthermore, in November 2009, KT was first to introduce Apple's iPhone to the Korean market to meet the smartphone needs of consumers.

Considering the highly saturated mobile phone market in Korea (99% in 2009 and 101% in 2010—estimate from KT's Economy and Management Research), potential growth by adding new subscribers or raising voice service plans are limited. In such an environment, however, the mobile data business is considered as a new growth engine. At the end of 2009, KT successfully switched the paradigm of competition from voice to data centered services by exclusively introducing Apple's iPhone to Korea and launching FMC services. The launching of FMC services, which utilize KT's various unique post-merger networks, was the trigger point for pioneering a niche market of converged fixed-mobile telecommunications. Going forward, KT will continue to provide differentiated services based on its diverse network and engage in service quality centered competition, rather than marketing centered competition.

In the broadband Internet arena, KT will aim to improve customer value and marketing power by continuing to provide Fiber-To-The-Home ("FTTH") services.

KT's wireless broadband Internet service business, or SHOW WiBro, plans to further expand services to 84 major cities, including the Seoul metropolitan area, and will aim to be a leader in the Mobile 2.0 generation, the next generation of mobile internet services that leverage the social web that emphasizes interactions, collaboration and sharing amongst users.

Also, KT's IPTV business will focus on actively catering to the TV portal market through its QOOK TV service and, in the long term, by pursuing a leadership position in the communication-broadcasting convergence market.

(b) Operations Subject to Disclosure

KT's main area of business is the telecommunications sector as classified by the Korea Standard Industry Code.

(2) Market Share

Category	Operator	Market Share for Each Term (%)			
		29th Fiscal Year (2010)	28th Fiscal Year (2009)	27th Fiscal Year (2008)	26th Fiscal Year (2007)
Local Telephone (On the Basis of the Number of Subscribers)	KT	86.3	89.9	89.8	90.4
	SK Broadband	11.7	8.4	8.7	8.8
	LG Dacom	2.0	1.7	1.5	0.8

Mobile Telephone (On the Basis of the Number of Subscribers)	KT	31.6	31.3	31.5	31.5
	SK Telecom	50.6	50.6	50.5	50.5
	LG Telecom	17.8	18.1	18.0	18.0
Broadband Internet (On the Basis of the Number of Subscribers)	KT	43.1	42.5	43.4	44.3
	SK Broadband	23.1	23.5	22.9	24.9
	LG Powercom	16.1	15.4	14.1	11.7
	Service Operators	17.7	18.6	19.6	17.5

* The 2008 and 2009 data was provided by the Korea Communications Commission (www.kcc.go.kr).

* Broadband internet market share of SK Broadband includes SK Telecom's resale subscribers.

(3) Market Characteristics

KT maintained approximately 86.3% of the Public Switched Telephone Network ("PSTN") market share as of December 31, 2010 despite increased marketing efforts by its competitors. For instance, SK Broadband began offering aggressive sales promotions to increase its PSTN subscribers by introducing tariff based on household unit and offering discounts on basic monthly fees and airtime usage charges. LG U+ also competes with its new tariff plan based on household unit called "YO".

Although PSTN sales and the number of PSTN subscribers are on a gradual decline due to the increased use of mobile phones and VoIP phone services over fixed phones and the paradigm shift from voice to data communications, KT is seeking to mitigate the PSTN sales from further decrease by (i) increasing Average Revenue per User ("ARPU") through sales of additional services, (ii) increasing customer satisfaction by offering optional calling plans and (iii) retaining existing customers through customer relationship management activities.

Competitions among mobile service providers over new subscribers continue to be intense, and overall revenue and subscriber growth have been slow. According to a report by KT Economics and Management Research Lab, penetration rates in terms of subscribers was 103.9% as of December 31, 2010.

However, as part of its growth strategy, KT plans to improve ARPU, particularly ARPU for data communication services, by providing innovative data services for smart phones utilizing Wi-Fi as well as WCDMA networks. As the sole iPhone handset and services provider in Korea, KT has successfully shifted the market competition from voice to data focused services. In addition to rapid iPhone sales, KT's smartphone market leadership is strengthened through the introduction of various other smartphone handsets such as Desire HD, Nexus-One and Galaxy K, as well as through offering of competitive data plan products such as one-month data roll-over program or one person data sharing plan ("OPMD") tariff plan. KT also pioneered the tablet PC market in Korea by introducing the iPad.

To create marketing synergy with KT's fixed services and to encourage loyal customers to subscribe to KT's other services, we introduced various services such as unlimited tariff plan among family members and 'olleh Toong' tariff plan, a bundled product for Internet, IPTV and PSTN services. Also, to provide differentiated services based on integration between fixed and mobile, KT introduced the "uCloud" service, a cloud computing service, and "olleh KT club", a fixed mobile integrated loyalty program.

As for broadband Internet, KT seeks to expand its subscriber base by offering high-quality services. In a market marked by intense price competition, KT seeks to lead the market by supplying superior FTTH services in terms of both speed and quality. KT's ultimate goal is to become a market leader in offering next generation of communication services, such as IPTV and VoIP, to its broadband subscribers by providing high Internet transmission speeds (100 Mbps) for common households.

(4) Status and Forecast of New Businesses

In order to overcome present market obstacles of limited growth in the voice service market and the sluggish growth in the broadband Internet service market, KT has been actively involved in developing a wide range of new businesses with growth prospects.

KT aims to create a digital entertainment world that will enrich its customers' lives through a ubiquitous environment, which can be accessed through various terminals anytime, anywhere. Furthermore, KT aims to offer customers convenient solutions that they may freely use without time or location limitations and business solutions necessary to raise corporate efficiency and competitiveness. By excelling in these new business areas, KT strives to become a company that aids its clients in meeting their goals and enhancing their value.

WiBro enables portable broadband Internet access services, allowing universal Internet access with high transmission speeds through personal handsets or laptop computers. WiBro was first commercialized in the world using Korean technology, and KT successfully provided commercial WiBro services in limited areas in 2006. Since April of 2007, KT has actively been seeking to provide WiBro services in the Seoul metropolitan area, including various major buildings and university campuses. In October 2008, WiBro services in the Seoul metropolitan area was extended to 19 neighboring cities and the service speeds became twice as fast. Furthermore, in March 2011, KT expanded its 4G WiBro service coverage to 82 cities nationwide and major highways, offering one of the world's first nationwide data-only network. Currently, anyone may utilize KT WiBro services with personal computers, WiBro-compatible laptop computers, WiBro phones, which combine CDMA mobile phones with WiBro service, Portable Media Players, navigation devices or Dongle, a USB device that can be connected to any laptop computer. In addition, Egg, which is a portable Access Point Device ("AP") launched at the beginning of 2009, enables customers to enjoy WiBro service with various Wi-Fi embedded devices. KT will continuously try to expand its array of digital devices that are compatible with WiBro services. KT will promote a mobile culture for its customers through KT WiBro, which shall offer not only basic Internet access but also other individually tailored services, such as combined webmails, two-way visual communications, remote controlled home computers, information services linked with real-time search functions and mobile UCC to its users. As a fixed-mobile integrated company after the merger, KT will introduce new services through the convergence of WCDMA, Wi-Fi and WiBro ("3W"), and thus lead the Mobile 2.0 generation, the next generation of mobile communications.

olleh TV is a service that integrates telecommunications and broadcasting services, brought about by accelerated development of high speed broadband Internet and fast conversion of contents into multimedia. olleh TV is a service that provides traditional Internet services, such as information searches, games, message exchanges, and shopping with VOD services, which allow users to watch a variety of contents, such as movies, dramas and educational programs, at any time. From the second half of 2007 to October of 2008, only non-real time VOD services and interactive services were provided due to regulatory restrictions. However, after the enactment of the Korean Internet Multimedia Broadcasting Business Law by the National Assembly in December 2007 and the granting of the IPTV business license to KT on September 8, 2008, KT has been able to provide real-time broadcasting IPTV service starting November 17, 2008. KT provided 122 IPTV channels, approximately 100,000 VOD programs and 92 two-way services as of December 31, 2010. In February 2010, KT introduced the first Open IPTV, where KT broadcast channels and VODs produced by its subscribers.

In order to maintain and expand its subscriber base and heighten competitive edge, KT's Internet phone provides video communication, SMS and a variety of daily life related services (home ATM, traffic and local news information) in addition to its voice transmission services. As a result of continuous efforts to add new subscribers, KT had 2.7 million VoIP subscribers as of December 31, 2010. Furthermore, the customer base for video services have gradually expanded due to the variety of terminal line-up from mid-end type (LCD 4') to high-end type (LCD 7') as well as 'media phone' and 'media robot' which will be introduced in the fourth quarter. Meanwhile, to secure a stable revenue base, KT is trying to maintain PSTN subscribers through bundling and long-term contracts. By providing VoIP phones as a second phone to PSTN subscribers, KT anticipates more revenue being generated from the VoIP business. KT plans to solidify its customer base through the creation of a new market by offering convergent terminals with value added services and integrated applications.

KT believes that its new businesses will not only bring about new sources of revenue for the company, but also assist KT in maintaining its current fixed-line market share as well as promote its competitiveness in the

broadband Internet service market. KT, leveraging on its past success, intends to continue developing new businesses so that it can become a pioneer in the areas of fixed line to mobile consolidation, convergence of telecommunications and broadcasting, and other cross-industry convergence.

The statements included in the above sections are based on KT's forecasts and are offered for the sole purpose of providing a better understanding of the company's current state. Consequently, investors must not rely solely on KT's forecasts when making their investment decisions.

2. Matters Related to Revenue

A. Performance in Terms of Revenue

(Unit: In Millions of Won)

Business category	29th Fiscal Year (2010)	28th Fiscal Year (2009)(*)	27th Fiscal Year (2008)
Internet	2,492,296	2,386,548	2,418,550
Data	1,316,044	1,450,217	1,650,121
Telephone	4,286,381	4,760,561	5,332,317
Wireless	6,914,452	4,260,674	1,006,638
Merchandise sales(*1)	4,502,887	2,501,230	855,145
Others(*2)	721,456	546,944	522,064
Total	20,233,516	15,906,174	11,784,835

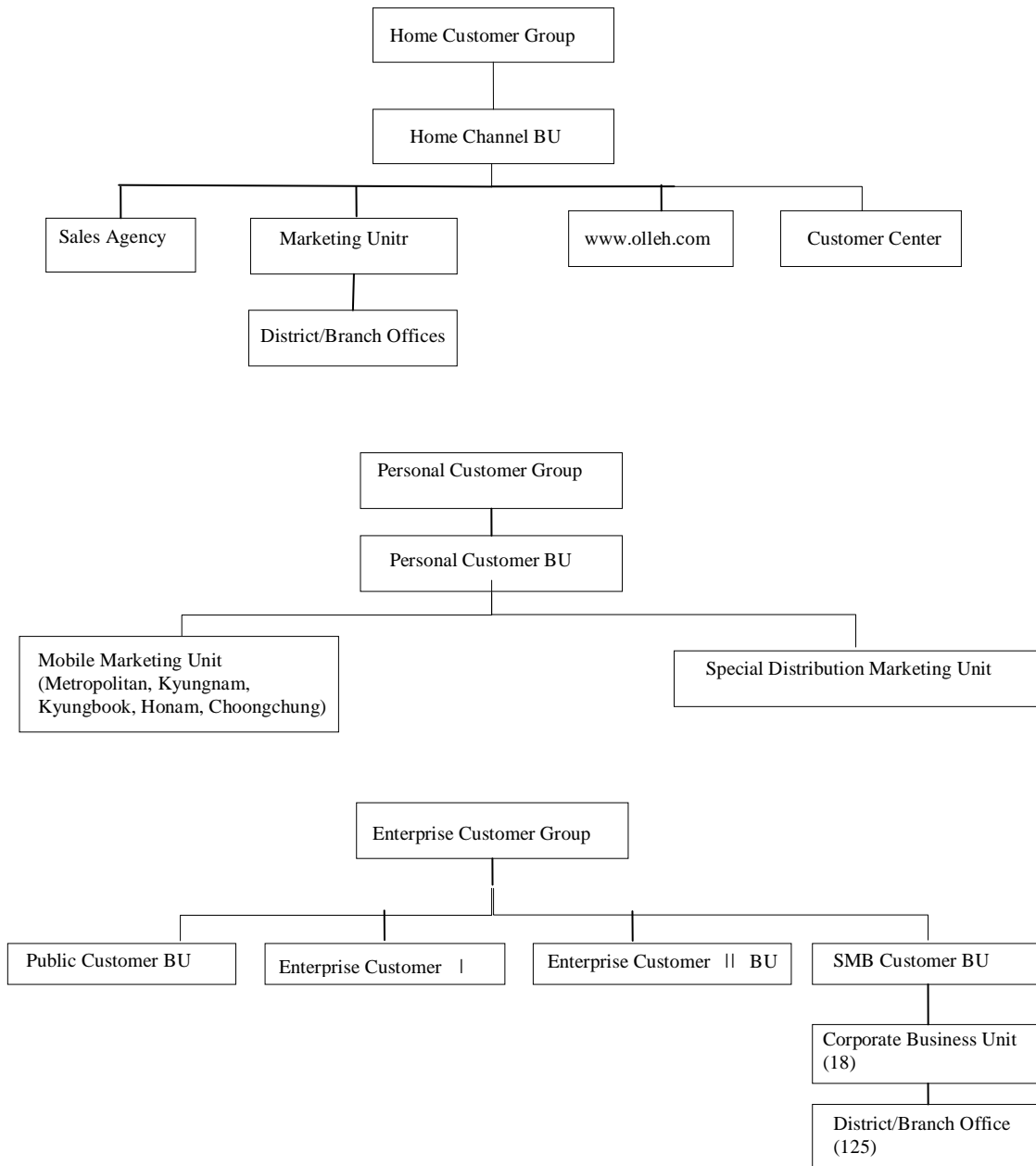
(*) The revenue from KTF from June-December 2009 has been included as the result of the merger according to the K-GAAP.

(*1) Hand set sales, etc.

(*2) Includes system integration business revenues and real estate business revenues.

B. Routes and Methods of Sales

(1) Marketing Organizational Structure (As of March 31, 2011)



- www.olleh.com : KT's internet site for attracting new subscribers
- Customer center: Distribution channel that consults and attracts new subscribers over the phone.

(2) Sales Path

- Customer center and branch offices offer sales of goods and customer services.
- Subscription to goods and services through the Internet (www.olleh.com).
- Attracting new subscribers and increasing cross-sales through business sales agreements and affiliation: sales agencies

(3) Methods and Conditions of Sales

(a) Sales Methods

- Service fees are paid in cash (wire transfer, direct bank transfer and credit cards). Fixed and wireless telephone services are operated on a unit pricing system or a partial flat rate system, and broadband Internet access service is operated on a flat rate system.
- Sale of terminals may involve installment payments.
- Rental of terminals is charged on a monthly basis, and a discounted rate is applied during the contract period.
- Distribution fees are charged upon installation and additional periodic maintenance fees.

(b) Conditions for Sales

- Discount of Service Fees in accordance with the Subscription Period

Category	1 Year	2 Years	3 Years	4 Years
olleh Internet	5%	10%	15%	20% (limited to Special)
KORNET (Express/Premium)	5%	10%	15%	-
olleh TV (Live/VOD)	5%	10%	20%	-

- Additional discounts available for subscribers who have used the following services for at least 3 years

Category	After 3 Year	After 4 Years	After 5 Years	Note
olleh Internet	2%	3%	5%	-
KORNET (Express/Premium)	2% (When subscribers sign up for an additional 1 year agreement)	3% (When subscribers sign up for an additional 2 year agreement)	5% (When subscribers sign up for an additional 3 year agreement)	When subscribers enter into an additional agreement

* In the case of olleh Internet, there are no additional discounts for subscribers who have used the service for more than 3 years if they renewed the long-term contract or signed for bundling after November 1, 2008.

- Additional discounts available for olleh Internet subscribers who renewed their contract

Category	Renewal for 1 year	Renewal for 2 years	Renewal for 3 years	Renewal for 4 years
Type A	KRW 1,000	KRW 2,000	KRW 3,000	KRW 4,000
Type B	-	5%	10%	-

- Optional discount for mobile service in accordance with the Subscription Period (SHOW-king sponsor basic type)

Monthly fee	Period of subscription		
	12 months	18 months	24 months
More than KRW 30,000 Up to KRW 40,000	Discount up to KRW 3,000	Discount up to KRW 5,000	100% discount (up to KRW 10,000)
More than KRW 40,000	Additional 10% discount		

* VAT excluded

- Discount for mobile Gold/i plan (SHOW-king sponsor for Gold/i type)

(Unit: Won)

Gold type plan	SHOW free 150	SHOW free 250	SHOW free 350	SHOW free 450	SHOW free 650	SHOW free 850	SHOW free 200
Amount of discount per month	2,500	5,000	7,000	11,000	12,000	14,000	25,000

* VAT excluded

i Type Plan	Slim	Lite/Talk	Value	Medium	Special	Premium
Amount of discount per month	5,000	8,000	10,000	13,000	16,000	22,000

* VAT excluded

- Mobile Bundling Plans

(Unit: Won/Month, VAT excluded)

Type	Basic fee	Total amount of usage	Complementary beneficiaries			Additional beneficiaries		1
			Voice (minute)	SMS	Discount rate(Max)	Youth-only SMS	Bundling beneficiary	
Mobile Toong(Single)	35,000	38,500	245	1,350	9%	-	Unlimited voice call time among family members	1~5
Mobile Toong(Small)	65,000	72,000~120,000	566	3,000	46%	500		
Mobile Toong(Medium)	95,000	122,000~170,000	1,019	5,500	44%	1,000		
Mobile Toong(Large)	125,000	172,000~220,000	1,481	8,000	43%	2,000		

- Unlimited 3G data plan
 - Subscribers who signed up for the basic fee of 55,000 or above in i-type and smart sponsor can use unlimited 3G data service with no additional charge.

(Unit: Won, Minute)

		Carryover data plan			Unlimited data plan			
Basic Fee		i-Slim	i-Talk	i-Lite	i-Value	i-Medium	i-Special	i-Premium
		35,000	45,000	45,000	55,000	65,000	79,000	95,000
Beneficiaries	Voice	150	250	200	300	400	600	Unlimited on-net 800 minutes free off-net
	SMS	200				400	600	1,000
	Data				Unlimited 3G data			
		100MB	100MB	500MB				
		Unlimited WiFi data						

* Please refer to the explanations for each service provided on their respective websites or the relevant terms and conditions for further details.

(4) Sales Strategy

Our main sale strategy is to provide differentiated experience for our customers by providing various bundled products at competitive prices.

(a) Mobile Service

- Enhancing leadership and competitiveness in smart phone and emerging device market: expanding smart phone subscriber base and pioneering the tablet PC market
- Strengthening competitiveness by utilizing a differentiated network: Building a differentiated 'Mobile Wonderland' (a network usage environment) based on 3W(3G/WiFi/WiBro) network
- Controlling marketing expenses by introducing a new sales program which provides special tariff discount instead of handset subsidy
- Strengthen customer retention policy targeting the long-term contract customers whose contract period is matured.
- Promote specialized high-quality products and increase sales through up-selling and retention of existing customers

(b) Broadband Internet Service

- Strengthen competitiveness in both quality and speed by offering FTTH
- Satisfy a diverse range of customer needs and provide differentiated services through development and offering of additional services
- Promote specialized high-quality and optimized products and increase sales through up-selling and retention of existing customers

(c) Telephone Service

- Minimize PSTN line loss by customer segmentation
- Provide more benefits to customers by bundling services.
- Promote KT's VoIP phones to existing PSTN subscribers as their second phones to increase PSTN+VoIP bundled subscribers.
- Retain PSTN subscribers who wish to switch their PSTN phone to VoIP phone by offering our own VoIP solution.
- Enhance ARPU by developing new business model.

(d) WiBro Service

- Increase subscriber base by expanding distribution channels and terminal competitiveness.
- Execute special marketing program (opening interactive stores, establishing WiBro U-Campus, launching a laptop rental businesses, target marketing toward securities companies)
- Stimulate early market interest through promotional rate plans and package products

(e) IPTV Service

- Promote IPTV products to our existing internet subscribers.
- Expand client base by offering free set-top box rentals (with a 3-year subscription contract) and opportunities to experience KT services

- Increase synergy with Skylife, our satellite TV subsidiary, by providing hybrid product through which people can enjoy Satellite HD channels as well as VOD libraries.

3. Research and Development Activities

A. Research and Development Costs

(Units: In Millions of Won)					
Category		2010	2009	2008	Note
Raw Materials		-	-	-	-
Labor Costs		47,156	59,490	69,256	
Depreciation		77,778	66,109	51,637	-
Commissions		3,870	6,692	14,027	-
Others		392,445	238,868	214,263	-
Total R&D Costs		521,249	371,159	349,183	-
Accounting Treatment	Research and Ordinary Development Costs	278,728	251,141	260,445	
	Development Costs (Intangible Assets)	242,521	98,042	111,401	
Percentage of R&D Costs over Revenue		2.58%	2.33%	2.96%	-

4. Other Matters Necessary for Making Investment Decisions

A. Intellectual Property Rights

- KT holds 5,945 domestic patents and 456 overseas patents as of December 31, 2010.

III. Financial Information

1. Summary of Financial Statements (Consolidated)

As of the end of December 31
(in Millions of Won)

Classification	2010	2009	2008	2007	2006
Current Assets	8,072,631	7,971,849	7,073,826	5,642,799	5,981,420
• Quick Assets	7,416,800	7,272,447	6,648,985	5,343,695	5,744,225
• Inventory	655,831	699,402	424,841	299,104	237,195
Fixed Assets	19,640,828	18,648,468	19,064,778	18,484,086	18,261,914
• Investments	783,191	561,370	546,000	470,195	533,947
• Tangible Assets	15,227,858	14,774,560	15,188,631	15,288,002	15,167,429
• Intangible Assets	1,232,866	1,279,500	1,474,238	1,735,323	1,959,591
• Other Non-Current Assets	2,396,913	2,033,038	1,855,909	990,566	600,947
Total Assets	27,713,459	26,620,317	26,138,604	24,126,885	24,243,334
Current Liabilities	7,429,630	6,941,223	5,241,028	5,078,621	5,423,115
Fixed Liabilities	8,788,157	9,011,655	9,809,678	7,910,498	8,122,915
Total Liabilities	16,217,787	15,952,878	15,050,706	12,989,119	13,546,030
Capital	1,564,499	1,564,499	1,560,998	1,560,998	1,560,998
Capital Surplus	1,449,777	1,448,569	1,440,633	1,440,777	1,292,475
Capital Adjustments	(1,262,534)	(2,165,728)	(3,994,736)	(3,983,929)	(3,817,717)
Accumulated Comprehensive Income	(82,647)	(44,542)	10,879	142	5,772
Retained Earnings	9,364,731	9,573,769	9,814,115	9,843,775	9,400,068
Minority Interest	461,846	290,872	2,256,009	2,276,003	2,267,252
Total Capital	11,495,672	10,667,439	11,087,898	11,137,766	10,697,304

For the years ended December 31 (in Millions of Won)

Classification	2010	2009	2008	2007	2006
Revenues	21,331,313	19,649,120	19,592,949	18,660,082	17,824,880
Operating Income	2,175,082	966,459	1,440,280	1,745,341	2,383,376
Income from Continuing Operations	1,189,930	607,300	539,337	1,096,774	1,509,721
Net Income	1,192,542	609,695	513,290	1,170,978	1,509,717
Consolidated Net Income	1,168,005	494,846	449,810	1,056,227	1,291,863
Number of Consolidated Companies	40	36	33	28	23

2. Summary of Financial Statements (Non-Consolidated)

(in Millions of Won)

Classification	2010	2009	2008	2007	2006
Current Assets	6,111,816	6,474,579	3,778,105	3,310,412	3,239,188
• Quick Assets	5,552,365	5,867,770	3,610,564	3,188,309	3,146,206
• Inventory	559,451	606,809	167,541	122,103	92,982
Fixed Assets	17,989,191	17,867,896	14,906,817	14,606,770	14,723,145
• Investments	1,510,633	1,274,670	3,517,906	3,458,580	3,661,067
• Tangible Assets	13,947,841	14,203,832	10,428,674	10,448,618	10,398,084
• Intangible Assets	1,137,978	1,206,587	397,046	439,738	470,782
• Other Non-Current Assets	1,392,739	1,182,807	563,191	259,834	193,212
Total Assets	24,101,007	24,342,475	18,684,922	17,917,182	17,962,333
Current Liabilities	6,112,774	5,684,276	2,585,875	2,991,341	3,270,249
Fixed Liabilities	6,947,341	8,259,945	7,267,158	6,065,948	6,143,004
Total Liabilities	13,060,115	13,944,221	9,853,033	9,057,289	9,413,253
Capital	1,564,499	1,564,499	1,560,998	1,560,998	1,560,998
Capital Surplus	1,449,777	1,448,569	1,440,633	1,440,777	1,440,910
Capital Adjustments	(1,262,534)	(2,165,728)	(3,994,736)	(3,983,929)	(3,817,717)
Accumulated Comprehensive Income	(82,647)	(44,542)	10,879	(818)	10,978
Retained Earnings	9,371,797	9,595,456	9,814,115	9,842,865	9,353,911
Total Capital	11,040,892	10,398,254	8,831,889	8,859,893	8,549,080

(in Millions of Won)

Classification	2010	2009	2008	2007	2006
Sales	20,233,516	15,906,174	11,784,835	11,936,382	11,856,009
Operating Income	2,053,297	611,550	1,113,389	1,433,722	1,756,228
Net Income	1,171,866	516,533	449,810	981,967	1,233,449

IV. Auditors' Opinion

1. Auditor

2010	2009	2008
Samil PwC	Deloitte Anjin LLC	Deloitte Anjin LLC

2. Audit (or Review) Opinion

Term	Audit (or Review) Opinion	Issues noted
2010	Unqualified	Not Applicable
2009	Unqualified	Not Applicable
2008	Unqualified	Not Applicable
2007	Unqualified	Not Applicable

3. Remuneration for Independent Non-Executive Auditors for the Past Three Fiscal Years

A. Audit Contracts

(Units: In Millions of Won, Hours)

Term	Auditor	Contents	Fee	Total Hours
2010	Samil PwC	Quarterly and semi-annual review of financial statements Non-consolidated financial statements audit Consolidated financial statements audit US GAAP financial statements audit	2,590	36,159
2009	Deloitte Anjin LLC	Quarterly and semi-annual review of financial statements Semi-annual review of consolidated financial statements Non-consolidated financial statements audit Consolidated financial statements audit US GAAP financial statements audit	2,786	41,545
2008	Deloitte Anjin LLC	Quarterly and semi-annual review of financial statements Semi-annual review of consolidated financial statements Non-consolidated financial statements audit Consolidated financial statements audit Kaesong Branch Office audit US GAAP financial statements semi-annual review US GAAP financial statements audit	2,319	33,858

V. Management and Affiliated Companies

1. Overview of the Board of Directors and Committees under the Board

A. Matters on the Board of Directors

(1) Organization

As of March 31, 2011, Board of Directors of KT Corp. consists of 11 Directors. (3 Inside Directors and 8 Outsider Directors) Under the Board of Directors, KT has six different Committees as follows; Corporate Governance Committee, Audit Committee, Outside Director Candidate Recommendation Committee, Evaluation & Compensation Committee, Executive Committee, and Related-Party Transaction Committee. The Board of Directors may establish additional committees if necessary.

(2) Major Activities of the Board of Directors

Order	Date	Subject	Result of Discussion
First	Jan. 29, 2010	Proposal on assurance for Ansan U-Complex Business	Original proposal approved
		Approval of financial statements of the 28th term	Original proposal approved
		Business reports of the 28th Term	Original proposal approved
		Plan for issuance of bonds for 2010	Original proposal received
		Proposal on the reformation of corporate governance	Original proposal approved
Second	Feb. 11, 2010	Proposal on the amendment of the articles of incorporation	Amended proposal approved
		Agreement on the recommendation of non-independent Directors	Original proposal approved
		Proposal on the recommendation of members of audit committee	Original proposal approved
		Proposal on the limit on remuneration of Board of Directors	Original proposal approved
		Proposal on the compensation and payment system for Board of Directors	Original proposal approved
		Proposal on the amendment of the severance payment regulation for senior management	Original proposal approved
		Approval of financial statements of the 28th term	Original proposal approved
		Convocation of annual general meeting of shareholders of 28th term	Original proposal approved
		Report on operational condition of internal accounting management system	Original proposal received
		Proposal on the execution of call option on Skylife	Original proposal approved
		Report on ROA status and strategies for improvement of real estate business	Original proposal received
		Audit committee's report on operational condition of internal accounting management system	Original proposal received

		Report on the validity of the audit committee	Original proposal received
Third	Mar. 12, 2010	Appointment of the Chairman of the Board of Directors and the proposal on the organization of committees under the Board of Directors	Chairman of BOD and members of committees appointed
		Amendment to the policies on the Board of Directors and committees	Original proposal approved
		Report on current status and plan for improvement of management performance of subsidiary companies	Original proposal received
		Report on acquisition of Keum-Ho Rent-A-Car and proposal on capital increase	Original proposal approved
		Report on transactions under KRW 15 billion with other entities for 2009	Original proposal received
		Plan for building hot-line for chairman of audit committee	Original proposal received
Fourth	Mar. 17, 2010	Approval on the payment for new frequency acquisition	Original proposal approved
Fifth	Apr. 29, 2010	Proposal on funding for Korea Mobile Internet Business Association	Original proposal approved
		Proposal on renewal of contract with KIF investment fund	Original proposal approved
		Proposal on disposition of treasury shares for long-term performance based incentive payment	Original proposal approved
		Proposal on plans for the payment of long-term incentive for 2010	Conditionally approved
		Proposal on the method of payment for stock-options granted in the past	Original proposal approved
		Plan for postponed incentive payments	Original proposal approved
		Report on statement of accounts for the first quarter of 2010 fiscal year	Original proposal received
Sixth	May. 14, 2010	Proposal on C project plan	Original proposal approved
		Proposal on disposition of newly established non-car rental business unit of KT Rental	Original proposal approved
Seventh	July 16, 2010	Proposal on establishment of Wibro Infrastructure Corporation (WIC)	Original proposal approved
		Proposal on establishment and operation of fund for enhancement of core capability	Original proposal approved
Eighth	July 29, 2010	Plan for processing of stock-options of retired executive officers	Original proposal approved
		Report on statement of accounts for the first half of 2010 fiscal year	Original proposal received

Ninth	Oct. 28, 2010	Proposal on establishing a fund for domestic integrated app store development	Original proposal approved
		Report on statement of accounts for the third quarter of 2010 fiscal year	Original proposal received
		Report on business results of investee companies	Original proposal received
Tenth	Dec. 10, 2010	Report on strategies of real estate business through specialized real estate corporate	Original proposal received
		Proposal on funds for internal labor welfare fund	Original proposal approved
		Proposal on strategies for mid-term (2015) business and for the fiscal year 2011	Original proposal approved
		Proposal on Paul Project Plan	Original proposal approved
		Establishment of the Outside Director Candidates Recommendation Committee	Original proposal approved

(3) The Status of Committees under the Board of Directors

(a) Organization of the Committees under the Board of Directors (As of March 31, 2011)

Title	Organization	Name (after March 11, 2011)	Purpose of Establishment and Authority	Note (Before March 11, 2011)
Corporate Governance Committee	4 Outside Directors, & 1 non-independent Directors	Choon Ho Lee (Chairperson) E. Han Kim Jeung Soo Huh Hae-Bang Chung Hyun-Myung Pyo	Improvement of Corporate Governance	Choon Ho Lee (Chairperson) E. Han Kim Jeung Soo Huh Chan-Jin Lee Hyun-Myung Pyo
Evaluation & Compensation Committee	4 Outside Directors	Jeung Soo Huh (Chairperson) Choon Ho Lee Jong-Hwan Song Chan-Jin Lee	Management Agreement with the CEO and Assessment	Jeung Soo Huh (Chairperson) Choon Ho Lee Jong-Hwan Song Chan-Jin Lee
Executive Committee	3 non-independent Directors	Suk Chae Lee (Chairperson) Sang Hoon Lee Hyun Myung Pyo	Management and financial matters authorized by the Board of Directors	Suk-Chae Lee (Chairperson) Sang Hoon Lee Hyun Myung Pyo
Related-party Transaction Committee	4 Outside Directors	Jong-Hwan Song (Chairperson) Chan-Jin Lee Hyun Nak Lee Byong Won Bahk	Internal transactions that require resolution by the Board of Directors as stipulated by the 'Antitrust Regulation and Fair Trade Law' and 'Securities and Exchange Act'	Jeong-Suk Koh (Chairperson) Joon Park Jong-Hwan Song Hae Bang Chung

Outside Director Candidate Recommendation Committee	See V. Management and Affiliated Companies 1. Overview of the Board of Directors and Committees under the Board A. Matters on the Board of Directors (4) Independence of the Board of Directors	-
Audit Committee	See V. Management and Affiliated Companies B. Audit Committee	-

(b) Activities of the Committees under the Board of Directors

Corporate Governance Committee

Meeting Date	Agenda	Results of discussion	Independent and Non-Executive Directors				Executive Directors
			Choon Ho Lee	E. H Kim	Jeung Soo Huh	Chan Jin Lee	Hyun Myung Pyo
			Attendance 100%	Attendance 100%	Attendance 100%	Attendance 100%	Attendance 100%
			Voting Result				
May 26, 2010	Proposal on management plan of Corporate Governance Committee for 2010	Original proposal approved	For	For	For	For	For
Jul. 29, 2010	Proposal on improvement of corporate governance system	Original proposal approved	For	For	For	Absent	For
Oct. 26, 2010	Proposal on improvement of corporate governance system	Original proposal approved	For	For	Absent	For	For
Dec. 10, 2010	Proposal on improvement of corporate governance system	Original proposal approved	For	For	For	For	For

Evaluation & Compensation Committee

Meeting Date	Agenda	Results of discussion	Independent and Non-Executive Directors			
			Jeong Suk Koh	InMan Song	Choon Ho Lee	Jeung Soo Huh
			Attendance 100%	Attendance 86%	Attendance 33%	Attendance 100%
			Voting Result			
Jan. 27, 2010	Result of CEO management assessment for 2009	Original proposal approved	For	For	Absent	For
	Proposal on payment system for CEO and standing directors	Original proposal approved	For	For	Absent	For
Feb. 10, 2010	Proposal on the Limit on remuneration of Directors for 2010	Original proposal approved	For	For	Absent	For
	Proposal on remuneration standards and payment methods for Standing Directors	Original proposal approved	For	For	Absent	For

	Proposal on retirement payment standards revision	Original proposal approved	For	For	Absent	For
Feb. 25, 2010	CEO management goal for 2010	Re-Proposition	Against	Against	Absent	Against
Mar. 5, 2010	CEO management goal for 2010	Original proposal approved	For	Absent	For	For

- Members of the committee re-elected on March 12, 2010: (Jeong Soo Huh, Choon Ho Lee, Jong Hwan Song, and Chan Jin Lee)

Meeting Date	Agenda	Results of discussion	Independent and Non-Executive Directors			
			Jeong Soo Huh	Choon Ho Lee	Jong Hwan Song	Chan Jin Lee
			Attendance 100%	Attendance 33%	Attendance 100%	Attendance 100%
			Voting Result			
Apr. 28, 2010	Proposal on long-term incentive payment for 2009	Original proposal approved	For	For	For	For
	Proposal on long-term incentive grant in 2010	Original proposal approved	For	For	For	For
	Proposal on the method of payment for granted stock-options granted in the past	Original proposal approved	For	For	For	For
Jul. 29, 2010	Plan for process of stock-options of retired executive officers	Original proposal approved	For	absent	For	For
	Result of CEO management assessment for first half of 2010	Original proposal received	For	absent	For	For

Executive Committee

Meeting Date	Agenda	Results of discussion	Executive Directors		
			Suk-Chae Lee	Sasng Hoon Lee	Hyun Myung Pyo
			Attendance 100%	Attendance 100%	Attendance 100%
			Voting Result		
Jan. 18, 2010	Establishment, relocation, renaming and closing of branches	Original proposal approved	For	For	For
Jan. 25, 2010	Proposal on issuance of corporate bonds in 1Q and 2Q 2010	Original proposal approved	For	For	For
Mar. 8, 2010	Proposal on branch name change and branch relocation	Original proposal approved	For	For	For
Mar. 22, 2010	Proposal to donate certain facilities related to the establishment of broadband mobile traffic information system	Original proposal approved	For	For	For
Mar. 23, 2010	Proposal to award 2010 KT IT-Master Scholarship	Original proposal approved	For	For	For
Apr. 5, 2010	Proposal to award KT Company-Labor Union Youth Scholarship	Original proposal approved	For	For	For
Apr. 8, 2010	Relocation of branches	Original proposal approved	For	For	For

Apr. 21, 2010	Establishment of new branch	Original proposal approved	For	For	For
May 7, 2010	Proposal on sponsorship for 'Daegu FC'	Original proposal approved	For	For	For
May 19, 2010	Sponsoring Korea Digital Media Industry Association	Original proposal approved	For	For	For
May 27, 2010	Relocation of branches	Original proposal approved	For	For	For
Sep. 17, 2010	Closing of branches	Original proposal approved	For	For	For
	Proposal on issuance of corporate bonds in 4Q 2010.	Original proposal approved	For	For	For
	Proposal on WIC project	Original proposal approved	For	For	For
Dec. 16, 2010	Proposal on Paris Project plan	Original proposal approved	For	For	For
Dec. 22, 2010	Proposal on issuance of corporate bonds in 1Q 2011	Original proposal approved	For	For	For

(4) Independence of the Board of Directors

(a) Independence of appointing BOD members

In order to secure independence and transparency, all candidates to the Board of Directors should be selected and must receive approvals from the general meeting of shareholders. Also, the outside research and advisory service may be conducted if necessary.

(b) Appointment of new Directors

Name	Expertise	Recommendation	Committees	Inside trading, relationship with major shareholders
Choon Ho Lee	Media Business	Outside Director Candidate Recommendation Committee	Corporate Governance Committee(Chairman)/ Evaluation & Compensation Committee	No
Jeung Soo Huh	New Energy Business	Outside Director Candidate Recommendation Committee	Corporate Governance Committee/ Evaluation & Compensation Committee(Chairman)	No
Jong Hwan Song	Global Business	Outside Director Candidate Recommendation Committee	Evaluation & Compensation Committee / Related-party Transaction Committee	No
Chan Jin Lee	Broadcasting/ Telecommunication and Internet	Outside Director Candidate Recommendation Committee	Corporate Governance Committee/ Evaluation & Compensation Committee	Dreamwiz Corp.'s "twtkr.com" will be serviced through olleh.com for 5 years at KRW 370 million

(c) Establishing separate committee to appoint new directors

Name	Whether Outside Director	Note
E. Han Kim	O	The number of the outsider Directors should be more than 50%
Jeong Suk Koh	O	
Joon Park	O	
Choon Ho Lee	O	
Jeung Soo Huh	O	
Hyun Myung Pyo	X	

Outside Director Candidate Recommendation Committee

Meeting Date	Agenda	Results of discussion	Independent and Non-Executive Directors					Executive Director
			E. Han Kim	Jeong-Suk Koh	Joon Park	Choon Ho Lee	Jeung Soo Huh	Hyun Myung Pyo
			Attendance 100%	Attendance 100%	Attendance 100%	Attendance 100%	Attendance 100%	Attendance 100%
			Voting Result					
Jan. 21, 2010	Plan on supporting recommendation of outside director candidate	Original proposal approved	For	For	For	For	For	For
Jan. 28, 2010	Selecting outside director candidate	Original proposal approved	For	For	For	For	For	For
Feb. 8, 2010	Finalization of outside director candidates	Original proposal approved	For	For	For	For	For	For

B. Audit Committee

(1) Matters on Audit Institution

(a) Establishment and Method of Organization of the Audit Committee (Auditors)

- Purpose of operational regulations for the Audit Committee
 - To regulate matters necessary for effective operation of the Audit Committee
- Rights and Duties
 - The Audit Committee may audit the Company's accounting and business affairs, and demand, whenever necessary, the Directors of the Company to report on the relevant matters thereof. The Audit Committee may handle the matters provided for under the relevant statutes, the Articles of Incorporation or the operational rules of the Audit Committee and other matters as authorized by the Board of Directors.
- Members of the Audit Committee shall be appointed by a resolution of the general meeting of shareholders, and at least one financial expert must be appointed as a member.

(b) The Audit Committee's Internal Procedures for Access to Management Information Necessary for Audit

- Types of Meetings
 - The Audit Committee shall hold a regular meeting in the first month of every quarter of each year and

may hold an extraordinary meeting whenever necessary.

- Right of Convocation
 - The Audit Committee meetings shall be convened by the Chairman of the Audit Committee upon the request of the President or a member of the Audit Committee.
- Convocation Process
 - The Chairman shall send every member of the Committee a notice specifying date, location and agenda of the meeting through facsimile, telegram, registered mail or other electronic measures, at least 3 days prior to the date of the meeting.
- The Committee shall deliberate on or resolve the following matters:
 - Matters on the General Meeting of Shareholders
 - Request to the Board of Directors to convene an Extraordinary Meeting of Shareholders
 - Investigate and testify on agenda of, and documents provided at, the General Meeting of Shareholders
 - Matters on Directors and Board of Directors
 - Report to the Board of Directors on a Director's activities that are in violation of relevant statutes or the Articles of Incorporation
 - Preparation and submission of an Audit Report on financial statements that are to be submitted to the General Meeting of Shareholders
 - Injunction on illegal activities of a Director
 - Request for a report on the performance of Directors
 - Assessment report of operational status of internal accounting management system
 - Assessment report on Audit Committee
 - Matters authorized by the Board of Directors
 - Matters on Audit
 - Request on performance of Directors or investigation on business and financial status of the Company
 - Investigation on subsidiaries under the Korean Commercial Code
 - Receipt of report from a Director
 - Representation of the Company in a lawsuit between a Director and the Company
 - Decision on initiation of a lawsuit upon a minority shareholder's request for initiation of a suit against Directors
 - Approval for appointment, change or dismissal of an external auditor (the "Auditor")
 - Receipt of reports made by the Auditor on a Director's misconduct in the course of performing his duties or a material fact that is in violation of relevant statutes or the Articles of Incorporation
 - Receipt of reports made by the Auditor on the Company's violation of accounting standards, etc.
 - Assessment on audit of the Auditor
 - Assessment on independence of the Auditor
 - Pre-approval on services provided by the Auditor
 - Auditing plans for the year and the audit result
 - Assessment of the internal control system
 - Verification of corrective measures regarding audit results
 - Approval for appointment and proposal for dismissal of a person in charge of internal audit
 - Review of feasibility of material accounting policies and change in accounting estimates
 - Review on soundness and propriety of corporate financing and accuracy of financial reports
 - Establishment of a whistle-blowing system
 - Other Matters Provided by the Relevant Statutes and the Articles of Incorporation
 - The Audit Committee may, whenever necessary, require internal audit organization to separately report on its audit activities

(c) Personal Information of Members of the Audit Committee (As of March 31, 2011)

Name	Experience	Note
E. Han Kim	- Ph.D. in Finance, State University of New York - Independent Director and Non-Executive Chairman of the Board of Directors, POSCO - (Present) Tenured professor and Director of Financial Research, University of Michigan	Outside director
Hae Bang Chung	- M.A in Economics, Vanderbilt University - 6 th Deputy Minister, Ministry of Strategy and Finance - (Present) Professor, College of Law, Konkuk University	Outside director
Hyun Nak Lee	- M.A. in Economics, Seoul National University - Executive Director and Chief Editor, Donga Ilbo Daily - President, Kyeonggi Ilbo Daily	Outside director
Byong Won Bahk	- M.A. in Economics, Washington University - 7th Vice-Minister, Ministry of Finance and Economy (currently Ministry of Strategy and Finance) - Chairman of Board of Directors, Woori Finance Holdings and Chairman Board of Directors, Woori Bank	Outside director

(2) Major Activities of the Audit Committee (Auditor)

Order	Date	Subject	Result of Discussion	Note
First	Jan. 27, 2010	Approval of financial statements for 28th term	Original proposal approved	-
		Report of business report for 28th term	Original proposal approved	
		Report of final audit for fiscal year 2009	Conditional approval	
Second	Feb. 11, 2010	Appointment and remuneration of independent auditor for consolidated companies for fiscal year 2010	Original proposal approved	-
		Report on operating result of internal accounting management system for fiscal year 2009	Original proposal received	
		Report on operational condition of internal accounting management system for fiscal year 2009 (prepared by audit committee)	Original proposal received	
		Report on validity of the audit committee	Original proposal received	
Third	Feb. 25, 2010	Report on agenda of the annual general meeting of shareholders for 28th term and result on document review	Original proposal received	-
		Audit report for the annual general meeting of shareholders for 28th term	Original proposal received	
		Report on audit records for 2009 and audit plan for 2010	Original proposal received	
		Evaluation report on operational status of internal compliance device of the audit committee	Original proposal received	
Fourth	Mar. 17, 2010	Appointment of the chairman of Audit committee	Chairman appointed	-
		Approval of remuneration of independent auditor for consolidated companies for fiscal year 2010	Original proposal approved	
		Report on the result of consolidated statement of account for fiscal year 2009	Original proposal received	
Fifth	Apr. 26, 2010	Approval of remuneration of independent auditor for consolidated companies for fiscal year 2010	Original proposal approved	-

		Report on statement of accounts for the first quarter of fiscal year 2010	Original proposal received	
		Report of audit performance for the first quarter of 2010 and audit plan	Original proposal received	
Sixth	Jun. 24, 2010	Report on filing of Form 20-F for fiscal year 2009	Original proposal received	-
Seventh	Jul. 29, 2010	Approval of remuneration for audit and non-audit services of independent auditor of consolidated companies for fiscal year 2010	Original proposal approved	
		Report on statement of accounts for the first half of fiscal year 2010	Original proposal received	
		Report of final audit for first half of fiscal year 2010	Original proposal received	
		Report of audit performance for the first half of 2010 and audit plan for third quarter of 2010	Original proposal received	
Eighth	Aug. 12, 2010	Pre-approval of remuneration of independent auditor for non-audit services	Re-proposed	
		Pre-approval of remuneration of independent auditor for consolidated company (KTR) for fiscal year 2010	Original proposal approved	
Ninth	Oct. 26, 2010	Approval of remuneration of independent auditor for consolidated companies for fiscal year 2010	Original proposal approved	
		Report on statement of accounts for the third quarter of fiscal year 2010	Original proposal received	
		Report of audit performance for the third quarter of 2010 and audit plan for the fourth quarter of 2010	Original proposal received	
Tenth	Nov. 16, 2010	Pre-approval of remuneration of independent auditor for audit services	Original proposal approved	

C. Matters on Shareholder's Exercise of Voting Right

(1) Adoption of Cumulative Voting System

Automatic introduction of the cumulative voting system was implemented following the completion of the privatization process in 2002.

(2) Adoption of the Written Voting System or Electronic Voting

Adoption of the written voting system in accordance with the changes in the Articles of Incorporation at the 23rd General Meeting of Shareholders (March 11, 2005)

D. Remuneration to Executive Officers

(1) Remuneration paid to Directors (including Outside Directors) and Members of the Audit Committee (Auditors)

(Unit: Hundred Million Won)

Category	Total Amount Paid	Amount Approved by the General Meeting of Shareholders	Average Amount Paid per Person	Fair Value of Stock Option	Weight	Reference
3 Non-Independent Directors	45.4	65	15.1	-	—	-
8 Outside Directors	4.8		0.6	-	—	-

- Excludes performance-based compensation paid to Outside Directors during 1Q 2010 (which was included in the business report for fiscal year 2009, where it applied).

(2) Grant and Exercise of Stock Option

As of December 31, 2010

(Unit: Won, Shares)

Holder	Position	Date of Grant	Shares to be given upon exercise	Type of Share	Changed Volume			Unexercised	Period for Exercise	Exercise Price
					Granted	Exercised	Revoked			
Woo Sik Kim	Standing Director	3/25/2002	Treasury Shares	Common Shares	4,171			*4,171	3/25/2005~3/24/2010	62,814
Won Pyo Hong	Standing Director	3/25/2002	Treasury Shares	Common Shares	4,171			*4,171	Same as above	62,814
Min Hee Lee	Standing Director	3/25/2002	Treasury Shares	Common Shares	4,171			*4,171	Same as above	62,814
Ju Young Song	Standing Director	3/25/2002	Treasury Shares	Common Shares	4,171			*4,171	Same as above	62,814
Ee Sun Kim	Standing Director	3/25/2002	Treasury Shares	Common Shares	3,883			*3,883	Same as above	62,814
Jung Woong Kim	Outside Director	9/8/2003	Treasury Shares	Common Shares	7,120	3,596	3,524	0	9/9/2005 ~ 9/8/2010	41,711
Il Chong Nam	Outside Director	9/8/2003	Treasury Shares	Common Shares	7,120	3,596	3,524	0	Same as above	41,711
Sung Chul Chun	Outside Director	9/8/2003	Treasury Shares	Common Shares	7,120	3,596	3,524	0	Same as above	41,711
Young Ju Cho	Standing Director	9/8/2003	Treasury Shares	Common Shares	43,154	40,809	2,345	0	Same as above	41,711
In Moo Huh	Non-standing Director	9/8/2003	Treasury Shares	Common Shares	28,769	3,236	25,533	0	Same as above	41,711
Ju Young Song	Non-standing Director	9/8/2003	Treasury Shares	Common Shares	28,769	27,245	1,524	0	Same as above	41,711
Min Hee Lee	Non-standing Director	9/8/2003	Treasury Shares	Common Shares	21,577	20,404	1,173	0	Same as above	41,711
Soo Sung Jung	Non-standing Director	9/8/2003	Treasury Shares	Common Shares	21,577	20,404	1,173	0	Same as above	41,711

Seo Hwan Cho	Non-standing Director	9/8/2003	Treasury Shares	Common Shares	21,577	20,404	1,173	0	Same as above	41,711
Hyun Myung Pyo	Non-standing Director	9/8/2003	Treasury Shares	Common Shares	21,577	20,404	1,173	0	Same as above	41,711
Heon Chul Shin	Non-standing Director	9/8/2003	Treasury Shares	Common Shares	21,577	-	21,577	0	Same as above	41,711
Moon Ho Lee	Non-standing Director	9/8/2003	Treasury Shares	Common Shares	21,577	-	21,577	0	Same as above	41,711
Tae Bum Noh	Non-standing Director	9/8/2003	Treasury Shares	Common Shares	21,577	-	21,577	0	Same as above	41,711
Ki-Chul Kim	Non-standing Director	9/8/2003	Treasury Shares	Common Shares	21,577	20,404	1,173	0	Same as above	41,711
Hyun Joon Chang	Standing Director	9/16/2003	Treasury Shares	Common Shares	5,200	-	2,200	*3,000	9/17/2005~9/16/2010	57,000
Hee Chang Noh	Standing Director	2/4/2005	Treasury Shares	Common Shares	60,000	-	16,847	43,153	2/5/2007 ~ 2/4/2012	54,600
Hong Ki Kim	Outside Director	3/4/2005	Treasury Shares	Common Shares	6,976	-	-	6,976	3/5/2007 ~3/4/2012	42,684
Jae Chul Lee	Outside Director	3/4/2005	Treasury Shares	Common Shares	6,976	-	-	6,976	Same as above	42,684
Ki Kwon Do	Outside Director	3/4/2005	Treasury Shares	Common Shares	6,976	-	-	6,976	Same as above	42,684
Deok Nam Hwang	Outside Director	3/4/2005	Treasury Shares	Common Shares	6,976	-	-	6,976	Same as above	42,684
Hoon Han	Non-standing Director	3/4/2005	Treasury Shares	Common Shares	21,577	-	5,967	15,610	Same as above	42,684
Young Do Hong	Non-standing Director	3/4/2005	Treasury Shares	Common Shares	21,577	-	3,736	17,841	Same as above	42,684
Tae Keun Kim	Non-standing Director	3/4/2005	Treasury Shares	Common Shares	21,577	-	3,736	17,841	Same as above	42,684
Total	-	-	-	-	473,070	217,549	143,056	112,465	-	-

The weighted-average of the non-exercise stock option as of December 31, 2010: Won 48,468

- (1) Pursuant to the Merger Agreement, former KTF's unconverted stocks were reflected as adjusted by number and exercise price according to the merger ratio (addition of total 319,665 shares).
- (2) Position is as of the date of the stock option grant.
- (3) Difference between the number of shares granted and the number of shares with stock option unexercised is due to adjustment of number of granted shares that are dependent on management results and duration of continuous service.

* Unexercised stock options expired as of December 31, 2010 (excluding expired stock options, 88,898 shares of unexercised stock options remain).

2. Equity Investment

[As of December 31, 2010]

(Unit : In Share, Millions of Won, %)

Name of Company or Item	Purpose	Beginning Balance			Increase (Decrease)			End Balance			Financial Facts (Latest fiscal year)	
		Number of Shares	Equity Ratio	Book Value	Number of Shares	Acquisition (disposal)	P/L on Valuation	Number of Shares	Equity Ratio	Book Value	Total Asset	Net Profit
KT Powertel Co. Ltd.	Business promotion	7,771,418	44.9%	37,419	-	-	6,096	7,771,418	44.8%	43,515	165,838	13,592
KT Networks Corporation	Business promotion	2,000,000	100.0%	48,684	-	-	2,526	2,000,000	100.0%	51,210	171,875	2,321
KT Linkus co., Ltd.	Business promotion	2,941,668	93.8%	6,282	-	-	1,288	2,941,668	93.8%	7,570	68,458	1,237
Telecop Service Co. Ltd.	Business promotion	5,765,911	88.8%	26,045			4,329	5,765,911	88.8%	30,374	130,410	4,874
KT Venture Investment Fund No.2	Investment	5,000	94.3%	4,780	-	-	60	5,000	94.3%	4,840	5,200	24
KT Hitel	Active in management	22,750,000	65.9%	120,078	-	-	(949)	22,750,000	65.9%	119,129	223,225	(2,739)
KT Submarine Co., Ltd.	Active in management	1,617,000	36.9%	24,370	-	-	1,127	1,617,000	36.9%	25,497	99,180	4,371
KT Commerce, Inc.	Business promotion	266,000	19.0%	1,782	-	-	278	266,000	19.0%	2,060	42,787	1,464
KT Technologies, Inc (Former.KTF Technologies, Inc.)	Business promotion	1,146,962	78.8%	0	4,000,000	20,000	(20,000)	5,146,962	93.8%	0	129,052	1,725
KT Rental Co., Ltd.	Business promotion	6,800,000	100.0%	69,074	(181,954)	112,698	(16,048)	6,618,046	58.0%	165,724	933,557	13,797
KT Capital Co., Ltd.	Business promotion	20,200,000	73.7%	126,092	-	-	21,346	20,200,000	73.7%	147,438	2,037,839	27,763
Sidus FNH Co.	Business promotion	2,297,000	51.0%	3,522	-	-	151	2,297,000	51.0%	3,673	13,915	370
Sidus FNH-BMC No.1	Business promotion	60	20.0%	3,074			(72)	60	20.0%	3,002	15,014	(359)
Nasmedia Co., Ltd	Business promotion	1,767,516	50.0%	23,051			(547)	1,767,516	50.0%	22,504	77,176	4,797
Softnix Co.Ltd.	Business promotion	120,000	53.3%	610			(139)	120,000	53.3%	471	1,023	(261)
KT edui Co., Ltd. (former Information Premium Edu)	Business promotion	600,000	100%	3,031	-	-	(2,146)	600,000	70.3%	885	1,880	(2,654)
KT New Business Investment Fund No.1	Business promotion	100	90.9%	10,112	100	10,000	131	200	90.9%	20,243	22,601	81

KT Data System Co., Ltd.	Business promotion	2,400,000	95.3%	19,616	-	-	8,194	2,400,000	95.3%	27,810	147,950	8,144
KT mhows Co., Ltd.	Business promotion	510,000	51.0%	3,344	-	-	255	510,000	51.0%	3,599	15,825	506
KT M&S Co., Ltd.	Business promotion	30,000,000	100.0%	37,564	-	-	(16,469)	30,000,000	100.0%	21,095	265,446	(19,959)
KT Music Co., Ltd.	Business promotion	14,494,258	48.7%	17,417	-	-	(1,409)	14,494,258	48.7%	16,008	32,546	600
KT Innotz	Business promotion	600,000	60.0%	3,000	-	-	(791)	600,000	60.0%	2,209	5,277	(1,318)
KT Capital Media Contents Investment Fund No. 2	Business promotion	-	43.5%	3,045	-	-	(67)	-	43.5%	2,978	7,023	(156)
Gyeonggi-KT Green Growth Investment Association	Business promotion	-	40.3%	12,480	-	-	79	-	40.3%	12,559	31,150	197
KT Estate	Business promotion	-	-	-	1,600,000	8,000	45	1,600,000	100.0%	8,045	8,443	45
KT Stratigic Investment Fund No. 1	Business promotion	-	-	-	100	10,000	(54)	100	90.9%	9,946	11,067	(59)
Korea Telecom America, Inc.(USA)	Business promotion	6,000	100.0%	4,064	-	-	33	6,000	100.0%	4,097	5,645	136
Korea Telecom Japan Co., Ltd.(Japan)	Business promotion	12,856	100.0%	3,995	-	-	520	12,856	100.0%	4,515	13,669	91
Korea Telecom China Co., Ltd.(China)	Business promotion	-	100.0%	2,160	-	-	258	-	100.0%	2,418	2,610	237
New Telephone Company, Inc. (Russia)	Business promotion	5,309,189	80.0%	168,654			(7,448)	5,309,189	80.0%	161,206	220,209	33,001
KTSC Investment Management B.V.	Business promotion	82,614	60.0%	36,275	-	-	(4,021)	82,614	60.0%	32,254	58,649	365
PT.KT Indonesia	Business promotion	198,000	99.0%	108	-	-	(40)	198,000	99.0%	68	70	(43)

VI. Employees

1. Current Status of Employees

(Unit: Persons, Years, Millions of Won)

Type	Number of Employees			Average Years in Continuous Service	Total Payroll	Average Payroll per Person	Note
	General	Other	Total				
Total	30,987	168	31,155	18.7	1,826,479	58.67	-

1) Number of employees: As of December 31, 2010 (excluding executive directors)

2) Average years in continuous services: Calculated using aggregate years of service of employees as of December 31, 2010 divided by number of employees as of December 31, 2010

3) Average payroll per person: Calculated using yearly average number of employees (31,133 employees)

* Average payroll per person = total payroll amount / yearly **average** number of employees.

VII. The Principal Risks and Uncertainties Facing the Company

1. Risks Relating to Our Business

Competition in the Korean telecommunications industry is intense.

Competition in the telecommunications sector in Korea is intense. In recent years, business combinations in the telecommunications industry have significantly changed the competitive landscape of the Korean telecommunications industry. In particular, SK Telecom Co., Ltd. (or SK Telecom) acquired a controlling stake in Hanarotelecom Incorporated in 2008, which was renamed SK Broadband Co., Ltd. (or SK Broadband). The acquisition enables SK Telecom to provide fixed-line telecommunications, broadband Internet access and Internet television (or IP-TV) services together with its mobile telecommunications services. On January 1, 2010, LG Dacom Corporation (or LG Dacom) and LG Powercom Co., Ltd. (or LG Powercom) merged into LG Telecom Co., Ltd., which subsequently changed its name to LG U+. The merger enables LG U+ to provide a similar range of services as SK Telecom and us. Our inability to adapt to such changes in the competitive landscape could have a material adverse effect on our business, financial condition and results of operations.

Mobile Service. We provide mobile services based on Code Division Multiple Access (or CDMA) technology and Wideband Code Division Multiple Access (or W-CDMA) technology. Competitors in the mobile telecommunications service industry are SK Telecom and LG U+. We had a market share of 31.6% as of December 31, 2010, making us the second largest mobile telecommunications service provider. SK Telecom had a market share of 50.6% as of December 31, 2010.

Mobile subscribers are allowed to switch their service provider while retaining the same mobile phone number. Mobile service providers also grant subsidies to subscribers who purchase new handsets and agree to a minimum subscription period. Mobile number portability and handset subsidies have intensified competition among the mobile service providers and increased their marketing expenses. If the mobile service providers adopt a strategy of expanding market share through price competition, it could lead to a decrease in our net profit margins.

In recent years, SK Telecom and we also launched third-generation mobile telecommunications services, which we believe have further intensified competition between the two companies and resulted in an increase in marketing expenses. We expanded our coverage area of High Speed Downlink Packet Access (or HSDPA)-based IMT-2000 services nationwide in March 2007. IMT-2000 is a third-generation, high-capacity wireless communications technology, which allows operators to provide to their customers significantly more bandwidth capacity. Although we expect that SK Telecom will face similar challenges to those that we expect to face in implementing this third-generation technology, we cannot assure you that we will continue to be able to successfully compete in third-generation mobile telecommunications services.

Fixed-line Telephone Services. Before December 1991, we were the sole provider of local, domestic long-distance and international long-distance telephone services in Korea. Since then, various competitors have entered the local, domestic long-distance and international long-distance telephone service markets in Korea, which have eroded our market shares. LG U+ and SK Broadband currently provide local, domestic long-distance and international long-distance telephone services. In addition, Onse Telecom Corporation and SK Telink, Inc. currently provide domestic long-distance and international long-distance telephone services. Starting in 1998, specific service providers, such as Internet phone service providers, voice resellers and call-back service providers, also began offering international long-distance service in Korea. While we offer our own Internet phone service, the entry of these and other potential competitors into the local, domestic long-distance and international long-distance telephone service markets has had and may continue to have a material adverse effect on our revenues and profitability from these businesses. As of December 31, 2010, we had a market share in local telephone service of 86.3%. Further increase in competition may decrease our market shares in such businesses.

Internet Services. The Korean broadband Internet access service market has experienced significant growth in the past decade. SK Broadband (formerly Hanarotelecom) entered the broadband market in 1999 offering both Hybrid Fiber Coaxial (or HFC) and Asymmetric Digital Subscriber Line (or ADSL) services. We also began offering broadband Internet access service in 1999, followed by Dreamline, Onse and LG U+. In recent years, numerous cable television operators have also begun to offer HFC-based services at rates lower than ours. We had a market share of 43.1% as of December 31, 2010. As a result of having to compete with a number of competitors and the maturing of the Internet access service market, we currently encounter, and we expect to encounter, pressure to increase marketing expenses in the future.

The market for other Internet-related services in Korea, including IP-TV and Internet phone services, is also very competitive. We anticipate that competition will continue to intensify as the usage and popularity of the Internet grows and as new domestic and international competitors enter the Internet industry in Korea. The substantial growth of the Internet industry in Korea has attracted many competitors and as a result may lead to increasing price competition to provide Internet-related services. Increased competition in the Internet industry could have a material adverse effect on the number

of subscribers of our Internet-related service and on our results of operations.

We may fail to realize the anticipated benefits of the merger of KTF into KT Corporation.

On June 1, 2009, KTF merged into KT Corporation, with KT Corporation surviving the merger. The success of the merger of KTF with KT Corporation will depend, in part, on our ability to realize the anticipated synergies, growth opportunities and, to a lesser extent, cost savings from combining these two companies. The realization of these anticipated benefits may be impeded, delayed or reduced as a result of numerous factors, some of which are outside our control. These factors include:

- difficulties in integrating the operations of KTF with those of KT Corporation, including information systems, personnel, policies and procedures, and in reorganizing or reducing overlapping personnel, operations, marketing networks and administrative functions;
- unforeseen contingent risks or latent liabilities relating to the merger that may become apparent in the future;
- difficulties in managing a larger business; and
- loss of key management personnel or customers.

Accordingly, we cannot assure you that we will realize the anticipated benefits of the merger or that the merger will not adversely affect our combined business, financial condition and results of operations.

The integration of the operations of KTF into KT Corporation may require significant amounts of time, financial resources and management attention. KT Corporation's management intends to implement a business plan to effectively combine the operations of KTF with the operations of KT Corporation. If this business plan is not effective in integrating these operations, however, we may not realize the anticipated benefits of the merger. The integration process could also result in the disruption of our ongoing business and information technology systems, or inconsistencies in standards, controls, procedures and policies and a reduction in employee morale, each of which may adversely affect our ability to maintain relationships with customers and to retain key personnel.

In addition, as conditions to the approval of the merger of KTF into KT Corporation, the Korea Communications Commission is requiring us to (i) allow competing service providers to have greater access to our cable tunnels and telephone poles, (ii) improve Public Switched Telephone Network (or PSTN) number portability and voice over Internet protocol (or VoIP) number portability, and (iii) allow competing service providers to access our wireless Internet network. Such conditions may intensify competition in the telecommunications industry, which could have a material adverse effect on the number of our subscribers and results of operations.

Introduction of new services poses challenges and risks to us.

The telecommunications industry is characterized by continual advances and improvements in telecommunications technology, and we have been continually researching and implementing technology upgrades and additional telecommunication services to maintain our competitiveness. For example, in March 2005, we acquired a license to provide wireless broadband Internet access (or WiBro) service for ₩126 billion, and commercially launched our service in June 2006. We expanded our WiBro service coverage to 82 cities nationwide and major highways as of March 2011, and had approximately 377 thousand subscribers as of December 31, 2010. In addition, we are currently upgrading our broadband network to enable FTTH connection, which enhances downstream speed and connection quality. FTTH is a telecommunication architecture in which a communication path is provided over optical fiber cables extending from the telecommunications operator's switching equipment to the boundary of home or office. FTTH uses fiber optic cable, which is able to carry a high-bandwidth signal for longer distances without degradation. FTTH enables us to deliver enhanced products and services that require high bandwidth, such as IP-TV service and delivery of other digital media content. No assurance can be given that our new services will gain broad market acceptance such that we will be able to derive revenues from such services to justify the license fee, capital expenditures and other investments required to provide such services.

Failure to renew existing bandwidth spectrum, acquire adequate additional bandwidth spectrum or use our bandwidth efficiently may adversely affect our mobile telecommunications business and results of operations.

One of the principal limitations on a wireless network's subscriber capacity is the amount of bandwidth spectrum allocated to the service provider. Our current 40 MHz of bandwidth in the 1.8 GHz band is expected to expire in June 2011. We have applied to the Korea Communications Commission to reallocate 20 MHz of bandwidth in the 1.8 GHz band. In addition, the Korean Communications Commission allocated 20 MHz of spectrum in the 900 MHz band to us, which will

become effective on July 1, 2011. The Korea Communications Commission is also expected to sell additional spectrum in the 2.1 GHz band in the second half of 2011. The growth of our mobile telecommunications business and the increase in usage of wireless data transmission services have been significant factors in the increased utilization of our bandwidth, since wireless data applications are generally more bandwidth-intensive than voice services. The current trend of increasing data transmission use and the increasing sophistication of multimedia contents are likely to put additional strain on the bandwidth capacity of mobile service providers. In the event we are unable to maintain sufficient bandwidth capacity by renewing existing bandwidth spectrum, receiving additional bandwidth allocation, or cost-effectively implementing technologies that enhance bandwidth usage efficiency, our subscribers may perceive a general decrease in quality of mobile telecommunications services. No assurance can be given that bandwidth constraints will not adversely affect the growth of our mobile telecommunications business.

Termination of our 2G PCS services may pose additional risks to us.

We have been providing our 2G PCS services based on CDMA wireless network standards through our 40 MHz bandwidth in the 1.8 GHz spectrum, which allocation is expected to terminate in June 2011. As part of our decision to apply for reallocation, we have applied to the Korean Communications Commission to terminate our existing 2G PCS services by end of June 2011. Accordingly, our existing 2G PCS subscribers must either convert to our W-CDMA services or switch to other telecommunication companies. As of December 31, 2010, there were 1,393 thousand subscribers of 2G PCS services. We are offering benefits such as substantial discounts on W-CDMA-compatible handsets and monthly subscription fees to encourage our existing subscribers to switch to W-CDMA services. However, there can be no assurance that we will not incur reputational damage from terminating our 2G PCS services, such termination will not lead to a material decrease in the number of our mobile subscribers, or complaints and other potential actions of our 2G PCS subscribers will not adversely affect our business, financial condition and results of operations.

Disputes with our labor union may disrupt our business operations.

In the past, we have experienced opposition from our labor union for our strategy of restructuring to improve our efficiency and profitability by disposing of non-core businesses and reducing our employee base. Although we have not experienced any significant labor disputes or unrests in recent years, there can be no assurance that we will not experience labor disputes or unrests in the future, including expanded protests and strikes, which could disrupt our business operations and have an adverse effect on our financial condition and results of operations.

We also negotiate collective bargaining agreements every two years with our labor union and annually negotiate a wage agreement. Although we have been able to reach collective bargaining agreements and wage agreements with our labor union in recent years, there can be no assurance that we will not experience labor disputes and unrests resulting from disagreements with the labor union in the future.

The Korean telecommunications and Internet protocol broadcasting industries are subject to extensive Government regulations, and changes in Government policy relating to these industries could have a material adverse effect on our operations and financial condition.

The Government, primarily through the Korea Communications Commission, has authority to regulate the telecommunications industry. The Korea Communications Commission's policy is to promote competition in the Korean telecommunications markets through measures designed to prevent the dominant service provider in any such market from exercising its market power in such a way as to prevent the emergence and development of viable competitors.

Under current Government regulations, if a network service provider has the largest market share for a specified type of service and its revenue from that service for the previous year exceeds a specific revenue amount set by the Korea Communications Commission, it must obtain prior approval from the Korea Communications Commission for the rates and the general terms for that service. Each year the Korea Communications Commission designates service providers the rates and the general terms of which must be approved by the Korea Communications Commission. In recent years, the Korea Communications Commission has so designated us for local telephone service and SK Telecom for mobile service, and the Korea Communications Commission, in consultation with the Ministry of Strategy and Finance, currently approves rates charged by us and SK Telecom for such services. The Korea Communications Commission currently does not regulate our domestic long-distance, international long-distance, broadband internet access and mobile service rates, but the inability to freely set our local telephone service rates may hurt profits from such business and impede our ability to compete effectively against our competitors. The form of our standard agreement for providing local network service and each agreement for interconnection with other service providers are also subject to approval by the Korea Communications Commission.

The Government also sets the policies regarding the use of radio frequencies and allocates the spectrum of radio frequencies used for wireless telecommunications. On April 29, 2010, the Korea Communications Commission

announced its decision to allocate 20 MHz of spectrum in the 900 MHz band to us, 20 MHz of spectrum in the 800 MHz band to LG U+ and 20 MHz of spectrum in the 2.1GHz band to SK Telecom. Such new allocations of spectrum will become effective on July 1, 2011. The Korea Communications Commission is also planning to sell additional spectrum in the 2.1 GHz band in the second half of 2011. The new allocation of spectrum could increase competition among wireless service providers, which may have an adverse effect on our business.

We also plan to put more focus on the Internet protocol (or IP) media market, and we began offering IP-TV service on November 17, 2008. In addition, KT Skylife Co. (formerly Korea Digital Satellite Broadcasting Co., Ltd.), which became our consolidated subsidiary in 2010, offers satellite TV services, which may also be packaged with our IP-TV services. KT Skylife is also subject to the regulation of the Korea Communications Commission pursuant to the Korea Broadcasting Act. IP-TV is a service which combines video-on-demand services with real-time high definition broadcasting via broadband networks. The Korea Communications Commission has the authority to regulate the IP media market, including IP-TV services. Under the Internet Multimedia Broadcasting Business Act, anyone intending to engage in the IP media broadcasting business must obtain a license from the Korea Communications Commission, and anyone intending to engage in the broadcasting of certain contents must obtain additional approval of the Korea Communications Commission. Although we currently believe that we may freely compete in this market, there can be no assurance that Government regulations and policies will permit us to continue to do so.

Government policies and regulations relating to the above as well as other regulations involving the Korean telecommunications and IP broadcasting industries (including as a result of the implementation of free trade agreements between Korea and other countries, including the United States and the European Union) may change, which could have a material adverse effect on our operations and financial condition.

We are subject to various regulations under the Monopoly Regulation and Fair Trade Act.

The Monopoly Regulation and Fair Trade Act provides for various regulations and restrictions on large business groups enforced by the Korea Fair Trade Commission. The Korea Fair Trade Commission initially designated us as a large business group under the Monopoly Regulation and Fair Trade Act on April 1, 2002. Our business relationships and transactions with our subsidiaries, affiliates and other companies within the KT Group are subject to ongoing scrutiny by the Fair Trade Commission as to, among other things, whether such relationships and transactions constitute undue financial support among companies of the same business group. We are also subject to the fair trade regulations limiting cross-guarantee of debt and cross-shareholdings among member companies of the same group. Any future determination by the Korea Fair Trade Commission that we have engaged in transactions that violate the fair trade laws and regulations may result in fines or other punitive measures and may have a material adverse effect on our reputation and our business.

Concerns that radio frequency emissions may be linked to various health concerns could adversely affect our business and we could be subject to litigation relating to these health concerns.

In the past, allegations that serious health risks may result from the use of wireless telecommunications devices or other transmission equipment have adversely affected share prices of some wireless telecommunications companies in the United States. We cannot assure you that these health concerns will not adversely affect our business. Several class action and personal injury lawsuits have been filed in the United States against several wireless phone manufacturers and carriers, asserting product liability, breach of warranty and other claims relating to radio transmissions to and from wireless phones. Certain of these lawsuits have been dismissed. We could be subject to liability or incur significant costs defending lawsuits brought by our subscribers or other parties who claim to have been harmed by or as a result of our services. In addition, the actual or perceived risk of wireless telecommunications devices could have an adverse effect on us by reducing our number of subscribers or our usage per subscriber.

Depreciation of the value of the Won against the Dollar and other major foreign currencies may have a material adverse effect on the results of our operations and on the prices of our securities.

Substantially all of our revenues are denominated in Won. Depreciation of the Won may materially affect the results of our operations because, among other things, it causes an increase in the amount of Won required by us to make interest and principal payments on our foreign-currency-denominated debt, the costs of telecommunications equipment that we purchase from overseas sources, net settlement payments to foreign carriers and administrations and certain payments related to our derivative instruments entered into for foreign exchange risk hedging purposes.

Fluctuations in the exchange rate between the Won and the Dollar will also affect the Dollar equivalent of the Won price of the shares of our common stock on the KRX KOSPI Market and, as a result, will likely affect the market price of the ADSs. These fluctuations will also affect the Dollar conversion by the depositary for the ADRs of cash dividends, if any, paid in Won on shares of common stock represented by the ADSs.

2. Risks Relating to Korea

Korea is our most important market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate.

Substantially all of our operations, customers and assets are located in Korea. Accordingly, the performance and successful fulfillment of our operational strategies are necessarily dependent on the overall Korean economy and the resulting impact on the demand for telecommunications services. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the economy is subject to many factors beyond our control.

The Korean economy is closely tied to, and is affected by developments in, the global economy. Recent difficulties affecting the U.S. and global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have increased the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. Due to recent liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the Dollar has also fluctuated significantly in recent years. Furthermore, as a result of adverse global and Korean economic conditions, there has been continuing volatility in the stock prices of Korean companies. While the rate of deterioration of the global economy slowed in the second half of 2009, with some signs of stabilization and improvement in 2010, the overall prospects for the Korean and global economy in 2011 and beyond remain uncertain. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on Korea's economy in the future include:

- difficulties in the housing and financial sectors in the United States and elsewhere and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;
- declines in consumer confidence and a slowdown in consumer spending;
- adverse changes or volatility in foreign currency reserve levels, commodity prices, exchange rates (including fluctuation of the Dollar or Japanese Yen exchange rates or revaluation of the Chinese renminbi), interest rates, inflation rates or stock markets;
- continuing adverse conditions in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;
- increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;
- the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);
- the economic impact of any pending or future free trade agreements;
- social and labor unrest;
- substantial decreases in the market prices of Korean real estate;
- a decrease in tax revenues and a substantial increase in the Korean government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;
- financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain Korean conglomerates;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the occurrence of severe health epidemics in Korea and other parts of the world;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;
- political uncertainty or increasing strife among or within political parties in Korea;

- hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the supply of oil or increase in the price of oil;
- the occurrence of severe earthquakes, tsunamis and other natural disasters in Korea and other parts of the world, particularly in trading partners (such as the March 2011 earthquake in Japan, which also resulted in the release of radioactive materials from a nuclear plant that had been damaged by the earthquake); and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

Escalations in tensions with North Korea could have an adverse effect on us.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea's nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the international community. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty. Since the renouncement, Korea, the United States, North Korea, China, Japan and Russia have held numerous rounds of six party multi-lateral talks in an effort to resolve issues relating to North Korea's nuclear weapons program.

In addition to conducting test flights of long-range missiles, North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In May 2009, North Korea announced that it had successfully conducted a second nuclear test and test-fired three short-range surface-to-air missiles. In response, the United Nations Security Council unanimously passed a resolution in June 2009 that condemned North Korea for the nuclear test and decided to expand and tighten sanctions against North Korea. In March 2010, a Korean warship was destroyed by an underwater explosion, killing many of the crewmen on board. The government formally accused North Korea of causing the sinking in May 2010, and North Korea has denied responsibility for the sinking and has threatened retaliation for any attempt to punish it for the act. On November 23, 2010, North Korean forces fired more than one hundred artillery shells targeting Yeonpyeong Island located near the maritime border between Korea and North Korea on the west coast of the Korean peninsula, killing two Korean soldiers and two civilians as well as causing substantial property damage. Korea responded by firing approximately 80 artillery shells and putting the military on its highest alert level. The Government condemned North Korea for the act and vowed stern retaliation should there be further provocation.

In addition, there recently has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political stability in the region. On September 28, 2010, Kim Jong-il, the North Korean ruler who reportedly suffered a stroke in August 2008, named Kim Jong-un, his third son who is reported to be in his twenties, as the vice chairman of the Central Military Commission and the general of the North Korean army. Although Kim Jong-il has designated his son to be his successor, the implementation of the succession plan remains uncertain. North Korea's economy also faces severe challenges. In November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. Such developments may further aggravate social and political tensions within North Korea.

Reunification of the two Koreas could occur in the future. Reunification may entail a significant economic commitment by Korea. In President Lee Myung Bak's national address on August 15, 2010, he suggested the possible adoption of a reunification tax in order to prepare for long-term economic burden associated with reunification. Such discussions on reunification are very preliminary, and it has not been decided whether or when such tax would be implemented. If a reunification tax is implemented, it may lead to a decrease in domestic consumption, which in turn may have a material adverse effect on the Korean economy. In addition, there can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tension, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on our business, financial condition and results of operations.

**EXHIBIT 99-1 : NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010 AND 2009 AND
INDEPENDENT AUDITORS' REPORT**

KT Corporation

Non-Consolidated Financial Statements
December 31, 2010

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Report of Independent Auditors

To the Board of Directors and Shareholders of
KT Corporation

We have audited the accompanying non-consolidated statement of financial position of KT Corporation (the "Company") as of December 31, 2010, and the related non-consolidated statements of income, appropriation of retained earnings, changes in shareholders' equity and cash flows for the year then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of and for the year ended December 31, 2009, presented herein for comparative purposes, were audited by other auditors whose report dated February 23, 2010, expressed an unqualified opinion on those statements.

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

In our opinion, the non-consolidated financial statements as of and for the year ended December 31, 2010, referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010, and the results of its operations, the changes in its retained earnings, changes in shareholders' equity and cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Samil PricewaterhouseCoopers

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

Samuel Price waterhouse coopers

Seoul, Korea
February 24, 2011

This report is effective as of February 24, 2011, 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 non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

KT Corporation
Non-Consolidated Statements of Financial Position
December 31, 2010 and 2009

<i>(in millions of Korean won)</i>	2010	2009
Assets		
Current Assets		
Cash and cash equivalents, net (Notes 3 and 29)	₩ 894,294	₩ 1,289,823
Short-term investment assets (Note 3)	40,787	284,755
Trade accounts receivable, net (Notes 4 and 30)	3,635,550	3,490,369
Other receivables, net (Note 4)	292,044	197,791
Accrued revenues	2,723	11,560
Advance payments	103,024	59,255
Prepaid expenses	90,362	88,141
Prepaid income taxes	-	24,494
Current derivative instruments assets (Note 12)	150,628	-
Current deferred income tax assets (Note 25)	342,145	421,212
Inventories, net (Notes 5 and 10)	559,451	606,809
Other current assets	808	370
Total current assets	6,111,816	6,474,579
Long-term financial instruments (Note 3)	8	5
Available-for-sale securities (Note 6)	81,255	60,265
Equity-method investments (Note 7)	1,299,628	1,080,994
Long-term loans receivable	59,459	51,656
Other investment assets	70,283	81,750
Property and equipment, net (Notes 8, 10, 11 and 31)	13,947,841	14,203,832
Intangible assets, net (Notes 9 and 31)	1,137,978	1,206,587
Long-term trade accounts and notes receivable, net (Note 4)	786,611	391,289
Leasehold rights and deposits	226,836	271,614
Non-current derivative instruments assets (Note 12)	97,166	295,058
Non-current deferred income tax assets (Note 25)	177,602	106,624
Exclusive memberships	92,782	93,283
Other non-current assets	11,742	24,939
Total non-current assets	17,989,191	17,867,896
Total assets	₩ 24,101,007	₩ 24,342,475

KT Corporation
Non-Consolidated Statements of Financial Position
December 31, 2010 and 2009

(in millions of Korean won)

	2010	2009
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable (Note 30)	₩ 1,231,766	₩ 1,350,143
Other accounts payable	1,752,006	2,521,431
Advances received	118,547	135,203
Withholdings	132,927	78,353
Accrued expenses (Note 30)	483,734	428,338
Income taxes payable	273,747	-
Current portion of bond and long-term borrowings, net (Note 13)	1,940,368	1,024,681
Unearned revenue	1,831	2,854
Deposits received	96,750	105,842
Current derivative instruments liabilities (Note 12)	-	4,674
Current portion of accrued provisions (Notes 15 and 17)	81,098	32,757
Total current liabilities	6,112,774	5,684,276
Bonds payable, net (Note 13)	5,528,645	6,739,103
Long-term borrowings, net (Note 13)	28,339	63,144
Provisions for severance benefits, net (Note 14)	328,234	312,718
Non-current accrued provisions (Notes 15 and 17)	108,167	98,700
Refundable deposits for telephone installation	616,106	696,689
Long-term advances received	3,220	3,942
Long-term deposits received	48,564	25,204
Non-current derivative instruments liabilities (Note 12)	19,837	3,782
Long-term other accounts payable, net (Note 4)	251,757	300,455
Long-term trade accounts payable, net (Note 4)	14,472	16,208
Total non-current liabilities	6,947,341	8,259,945
Total liabilities	13,060,115	13,944,221

Commitments and Contingencies (Note 17)

KT Corporation
Non-Consolidated Statements of Financial Position
December 31, 2010 and 2009

<i>(in millions of Korean won)</i>	2010	2009
Shareholders' equity		
Capital stock		
Common stock (Notes 1, 19 and 34)	₩ 1,564,499	₩ 1,564,499
Capital surplus		
Paid-in capital in excess of par value	1,440,258	1,440,258
Other capital surplus (Note 34)	9,519	8,311
Capital adjustments		
Treasury stock (Notes 20 and 34)	(955,083)	(956,159)
Loss on disposal of treasury stock (Note 34)	(295)	(890,650)
Stock options (Note 21)	875	1,500
Other share-based payments (Note 21)	6,794	2,120
Other capital adjustments (Note 34)	(314,825)	(322,539)
Accumulated other comprehensive income and expense (Note 26)		
Unrealized gain on valuation of available-for-sale securities (Note 6)	2,516	2,118
Unrealized loss on valuation of available-for-sale securities (Note 6)	(249)	(36)
Accumulated comprehensive income of equity-method investees (Note 7)	9,675	9,414
Accumulated comprehensive expense of equity-method investees (Note 7)	(36,157)	(32,759)
Gain on valuation of derivatives for cash flow hedge (Note 12)	4,699	11,468
Loss on valuation of derivatives for cash flow hedge (Note 12)	(63,131)	(34,747)
Retained earnings (Note 22)		
Legal reserve	780,499	780,499
Voluntary reserves	4,651,363	4,758,013
Unappropriated retained earnings	3,939,935	4,056,944
Total shareholders' equity	<u>11,040,892</u>	<u>10,398,254</u>
Total liabilities and shareholders' equity	<u>₩ 24,101,007</u>	<u>₩ 24,342,475</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

See Report of Independent Auditors.

KT Corporation
Non-Consolidated Statements of Income
Years ended December 31, 2010 and 2009

(in millions of Korean won, except per share amounts)

	2010	2009
Operating revenues (Notes 23, 30 and 31)	₩ 20,233,516	₩ 15,906,174
Operating expenses (Notes 24, 30 and 31)	<u>18,180,219</u>	<u>15,294,624</u>
Operating income	<u>2,053,297</u>	<u>611,550</u>
Non-operating income		
Interest income	127,414	159,637
Foreign currency transaction gain	19,093	32,165
Foreign currency translation gain (Note 18)	64,902	232,369
Gain on valuation of equity-method investments (Note 7)	104,634	182,135
Gain on disposal of property and equipment	13,546	4,972
Reversal of accrued provisions	16,784	3,268
Gain on settlement of derivatives	-	1,929
Gain on valuation of derivatives (Note 12)	39,459	10,453
Other non-operating revenues	<u>187,271</u>	<u>257,411</u>
	<u>573,103</u>	<u>884,339</u>
Non-operating expenses		
Interest expense	504,947	445,893
Other bad debts expense	5,780	43,899
Foreign currency transaction loss	21,074	36,468
Foreign currency translation loss (Note 18)	31,447	11,524
Loss on valuation of equity-method investments (Note 7)	38,874	63,085
Donations	79,431	34,410
Loss on impairment of equity-method investments (Note 7)	-	3,463
Loss on disposal of property and equipment	173,414	90,387
Loss on impairment of property and equipment	8,778	-
Loss on disposal of intangible assets	19,006	4,114
Loss on settlement of derivatives	824	268
Loss on valuation of derivatives (Note 12)	47,481	185,677
Other non-operating expenses	<u>178,347</u>	<u>20,536</u>
	<u>1,109,403</u>	<u>939,724</u>
Income before income taxes	<u>1,516,997</u>	<u>556,165</u>
Income tax expense (Note 25)	<u>345,131</u>	<u>39,632</u>
Net income	<u>₩ 1,171,866</u>	<u>₩ 516,533</u>
Earnings Per Share (Note 27)		
Basic earnings per share	₩ 4,818	₩ 2,353
Diluted earnings per share	₩ 4,818	₩ 2,324

The accompanying notes are an integral part of these non-consolidated financial statements.

See Report of Independent Auditors.

KT Corporation

Non-Consolidated Statements of Appropriation of Retained Earnings

Years ended December 31, 2010 and 2009

(Dates of appropriation : March 11, 2011 and March 12, 2010 for the years ended December 31, 2010 and 2009, respectively)

<i>(in millions of Korean won)</i>	2010	2009
Retained earnings before appropriations		
Unappropriated retained earnings carried over from prior year	₩ 2,786,551	₩ 4,049,323
Retirement of treasury stock	-	(508,912)
Decrease in retained earnings of associates	(18,482)	-
Net income	1,171,866	516,533
	<u>3,939,935</u>	<u>4,056,944</u>
Transfer from voluntary reserve		
Reserve for technology and human resource development	-	106,650
	<u>3,939,935</u>	<u>4,163,594</u>
Appropriation of retained earnings		
Loss on disposal of treasury stock	295	890,650
Dividends		
Cash dividends (Note 28)	586,150	486,393
Dividends(ratio) per share		
Common stock:		
₩2,410 (48.2%) in 2010,		
₩2,000 (40.0%) in 2009		
Legal reserve	1,750	-
Reserve for technology and human resource development	260,000	-
	<u>848,195</u>	<u>1,377,043</u>
Unappropriated retained earnings carried forward to subsequent year	<u>₩ 3,091,740</u>	<u>₩ 2,786,551</u>

The accompanying notes are an integral part of these financial statements.
See Report of Independent Auditors.

KT Corporation
Non-Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2010 and 2009

(in millions of Korean won)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income and expense	Retained earnings	Total
Balances as of January 1, 2009 (as reported)	₩ 1,560,998	₩ 1,440,633	₩ (3,994,736)	₩ 10,879	₩ 9,814,115	₩ 8,831,889
Dividends	-	-	-	-	(226,280)	(226,280)
Retained earnings after appropriation	-	-	-	-	9,587,835	8,605,609
Issuance of common stock	3,501	-	-	-	-	3,501
Net income for the year	-	-	-	-	516,533	516,533
Consideration for exchange rights	-	18,442	-	-	-	18,442
Exercise of exchange rights of exchangeable bonds	-	(18,442)	451,157	-	-	432,715
Acquisition of treasury stock	-	-	(528,144)	-	-	(528,144)
Disposal of treasury stock	-	-	2,436,797	-	-	2,436,797
Retirement of treasury stock	-	-	508,912	-	(508,912)	-
Loss on disposal of treasury stock	-	(375)	(890,650)	-	-	(891,025)
Stock options	-	8,311	(7,380)	-	-	931
Other share-based payment	-	-	700	-	-	700
Other capital adjustments by merger	-	-	(89,375)	-	-	(89,375)
Decrease in subsidiaries' equity	-	-	(53,009)	-	-	(53,009)
Unrealized gain on valuation of available-for-sale securities	-	-	-	1,293	-	1,293
Changes in equity-method investees with accumulated comprehensive income	-	-	-	(12,747)	-	(12,747)
Changes in equity-method investees with accumulated comprehensive expense	-	-	-	(18,083)	-	(18,083)
Gain on valuation of derivatives for cash flow hedge	-	-	-	650	-	650
Loss on valuation of derivatives for cash flow hedge	-	-	-	(26,534)	-	(26,534)
Balances as of December 31, 2009	<u>₩ 1,564,499</u>	<u>₩ 1,448,569</u>	<u>₩ (2,165,728)</u>	<u>₩ (44,542)</u>	<u>₩ 9,595,456</u>	<u>₩ 10,398,254</u>

KT Corporation
Non-Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2010 and 2009

(in millions of Korean won)

	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Capital adjustments</u>	<u>Accumulated other comprehensive income and expense</u>	<u>Retained earnings</u>	<u>Total</u>
Balances as of January 1, 2010 (as reported)	₩ 1,564,499	₩ 1,448,569	₩ (2,165,728)	₩ (44,542)	₩ 9,595,456	₩ 10,398,254
Dividends	-	-	-	-	(486,393)	(486,393)
Retained earnings after appropriation	-	-	-	-	9,109,063	9,911,861
Net income for the year	-	-	-	-	1,171,866	1,171,866
Appropriation of loss on disposal of treasury stock	-	-	890,650	-	(890,650)	-
Acquisition of treasury stock	-	-	(349)	-	-	(349)
Disposal of treasury stock	-	-	(295)	-	-	(295)
Stock options	-	140	(183)	-	-	(43)
Other share-based payment	-	1,068	5,658	-	-	6,726
Other capital surplus	-	-	2,269	-	-	2,269
Unrealized gain on valuation of available-for-sale securities	-	-	-	398	-	398
Unrealized loss on valuation of available-for-sale securities	-	-	-	(213)	-	(213)
Increase in capital adjustment of associates	-	-	5,444	-	-	5,444
Changes in equity-method investees with accumulated comprehensive income	-	-	-	261	-	261
Changes in equity-method investees with accumulated comprehensive expense	-	-	-	(3,398)	-	(3,398)
Decrease in retained earnings of associates	-	-	-	-	(18,482)	(18,482)
Gain on valuation of derivatives for cash flow hedge	-	-	-	(6,769)	-	(6,769)
Loss on valuation of derivatives for cash flow hedge	-	-	-	(28,384)	-	(28,384)
Balances as of December 31, 2010	<u>₩ 1,564,499</u>	<u>₩ 1,449,777</u>	<u>₩ (1,262,534)</u>	<u>₩ (82,647)</u>	<u>₩ 9,371,797</u>	<u>₩ 11,040,892</u>

The accompanying notes are an integral part of these non-consolidated financial statements.

See Report of Independent Auditors.

KT Corporation
Non-Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009

(in millions of Korean won)

	2010	2009
Cash flows from operating activities		
Net income	₩ 1,171,866	₩ 516,533
Adjustments to reconcile net income		
to net cash provided by operating activities		
Share-based payments	6,794	1,052
Provision for severance benefits	215,367	1,071,706
Depreciation	2,651,647	2,412,093
Amortization of intangible assets	350,463	301,612
Provision for doubtful accounts	145,610	49,536
Interest expense	29,996	17,338
Interest income	(45,246)	(21,147)
Other bad debts expense	5,780	43,899
Gain on foreign currency translation, net	(33,542)	(221,233)
Gain on valuation of equity-method investments, net	(65,760)	(119,050)
Gain on disposal of equity-method investments, net	(1,188)	(70,337)
Loss on impairment of equity-method investments	-	3,463
Loss on impairment of available-for-sale securities	2,792	1,800
Gain on disposal of available-for-sale securities	(161)	(105)
Loss on impairment of other investment assets	-	3,472
Loss on disposal of property and equipment, net	159,868	85,415
Loss on impairment of property and equipment	8,778	-
Loss on disposal of intangible assets	19,006	4,114
Loss on impairment of intangible assets	-	1,970
Loss on valuation of derivatives, net	8,022	175,224
Other non-operating expenses	149,499	22
Other non-operating revenues	(29,994)	(912)
	<u>3,577,731</u>	<u>3,739,932</u>

KT Corporation
Non-Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009

(in millions of Korean won)

	2010	2009
Changes in operating assets and liabilities		
Decrease in trade accounts and notes receivable	₩ 110,370	₩ 30,453
Increase in other accounts receivable	(88,973)	(27,897)
Decrease in accrued revenues	9,044	1,886
Increase in advance payments	(43,769)	(15,787)
Decrease(increase) in prepaid expenses	(2,221)	23,583
Decrease(increase) in prepaid income taxes	24,494	(24,494)
Decrease(increase) in guarantee deposits	(495)	1,082
Decrease in derivative instruments assets	19,028	-
Decrease in other current assets	55	10
Decrease(increase) in inventories	43,724	(145,995)
Dividend income	49,793	11,350
Increase in long-term trade accounts and notes receivable	(758,395)	(332,626)
Decrease in leasehold rights and deposits	44,778	16,524
Decrease(increase) in deferred income tax assets	14,174	(89,116)
Decrease(increase) in exclusive memberships	461	(16,067)
Decrease in long-term other accounts receivable	9,498	-
Increase in long-term advance payments	-	(849)
Increase in long-term prepaid expenses	(1,624)	(1,612)
Decrease in trade accounts payable	(119,204)	(66,998)
Increase(decrease) in other accounts payable	(216,049)	87,765
Increase(decrease) in advances received	(17,193)	55,223
Increase(decrease) in withholdings	53,965	(78,971)
Increase(decrease) in accrued expenses	55,396	(43,266)
Increase(decrease) in income taxes payable	273,747	(102,187)
Decrease in unearned revenue	(1,023)	(547)
Decrease in deposits received	(55,294)	(17,194)
Increase(decrease) in derivative instrument liabilities	(10,696)	15,397
Payment of severance benefits	(1,231,337)	(369,294)
Decrease in deposits for severance benefits	286,838	53,708
Decrease in contribution to National Pension Fund	-	15
Decrease in accrued provisions	(42,295)	(3,943)
Decrease in refundable deposits for telephone installations	(80,583)	(85,215)
Decrease in long-term advances received	(181)	(1,224)
Increase(decrease) in long-term deposits received	69,566	(5,022)
Increase in long-term accounts payable	108,368	-
	(1,496,033)	(1,131,308)
Net cash provided by operating activities	3,253,564	3,125,157

KT Corporation
Non-Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009

(in millions of Korean won)

	2010	2009
Cash flows from investing activities		
Decrease in short-term investment assets	₩ 411,569	₩ 314,446
Disposal of available-for-sale securities	3,741	2,115
Decrease in equity-method investments	46,170	130,604
Decrease in long-term financial instruments	-	5
Collection of long-term loans	10,099	21,289
Disposal of property and equipment	25,686	21,877
Increase in customers' contribution to construction costs	4,496	16,028
Disposal of intangible assets	3,741	703
Disposal of other investment assets	652	-
Increase in short-term investment assets	(136,823)	(447,334)
Acquisition of available-for-sale securities	(26,564)	(32,151)
Acquisition of equity-method investments	(245,543)	(50,052)
Long-term loans granted	(47,506)	(15,158)
Acquisition of property and equipment	(2,556,176)	(2,371,786)
Acquisition of intangible assets	(301,542)	(193,228)
Net cash used in investing activities	(2,808,000)	(2,602,642)
Cash flows from financing activities		
Decrease in short-term borrowings, net	-	(400,000)
Issuance of bonds	709,637	925,728
Increase in long-term borrowings	9,237	8,575
Decrease in capital lease liabilities	(48,353)	(42,524)
Payment of current portion of bond and long-term borrowings	(1,025,221)	(678,395)
Payment of dividends	(486,393)	(226,280)
Acquisition of treasury stock	-	(528,144)
Net cash used in financing activities	(841,093)	(941,040)
Cash flows from other activity		
Increase in cash and cash equivalents due to merger	-	415,548
Net decrease in cash and cash equivalents	(395,529)	(2,977)
Cash and cash equivalents (Note 29)		
Beginning of the year	1,289,823	1,292,800
End of the year	₩ 894,294	₩ 1,289,823

The accompanying notes are an integral part of these non-consolidated financial statements.

See Report of Independent Auditors.

KT Corporation

Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

1. The Company

KT Corporation ("the Company") commenced operations on January 1, 1982, when it spun off from the Korea Communications Commission (formerly the Korean Ministry of Information and Communications) to provide telephone services and to engage in the development of advanced communications services under the Act of Telecommunications of Korea.

On October 1, 1997, upon the announcement of the Government-Investment Enterprises Management Basic Act and the Privatization Law, the Company became a government-funded institution under the Commercial Code of Korea.

On December 23, 1998, the Company's shares were listed on the Korea Exchange.

On May 29, 1999, the Company issued 24,282,195 additional shares and issued American Depositary Shares (ADS), representing new shares and government-owned shares, at the New York Stock Exchange and the London Stock Exchange. On July 2, 2001, the ADS representing 55,502,161 government-shares were issued.

In 2002, the Company acquired 60,294,575 government-owned shares in accordance with the Korean government's privatization plan. As of December 31, 2010, the Korean government did not own any share in the Company.

On June 1, 2009, the Company, as the surviving entity, merged with KT Freetel Co., Ltd. to have competitive advantages in the global trends of convergence between fixed and mobile communication.

The Company's major shareholders and their respective percentage of ownership as of December 31, 2010, are as follows:

	Number of shares	Percentage of ownership(%)
National Pension Service	21,557,950	8.26%
NTTDoCoMo, Inc.	14,257,813	5.46%
Employee Stock Ownership Association	4,069,147	1.56%
Others	203,330,934	77.87%
	<hr/> 243,215,844	<hr/> 93.15%
Treasury stock	17,895,964	6.85%
	<hr/> 261,111,808	<hr/> 100.00%

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KT Corporation
Notes to Non-Consolidated Financial Statements
December 31, 2010 and 2009

2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Presentation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Reclassifications of Prior Year Financial Statements

Certain reclassifications have been made on the December 31, 2009 financial statements to conform to the December 31, 2010 financial statements presentation. Such reclassifications did not have an effect on the shareholders' equity and net income of the Company as of and for the year ended December 31, 2009.

Revenue Recognition

Revenue is the gross inflow of economic benefits arising in the ordinary course of the Company's activities and is measured as the fair value of the consideration received or receivable for the sale of goods and services in the said ordinary course of the Company's activities. Revenue is shown as net of value-added tax, sales discounts and sales returns. The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.

Revenue from the sale of goods are recognized when the significant risks and rewards of ownership of goods are transferred to the buyer. Revenue from the rendering of services is recognized under the percentage-of-completion method, under which revenue is generally recognized based on the costs incurred to date as a percentage of the total estimated costs to be incurred.

KT Corporation
Notes to Non-Consolidated Financial Statements
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The Company recognizes revenues from construction contracts using the percentage-of-completion method to determine the amounts to be recognized as revenues in a given period. The stage of completion is measured using the percentage of the total contract costs incurred up to the date of statement of financial position over the total estimated costs for each contract. When the outcome of a construction contract cannot be estimated reliably, the contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable, and contract costs incurred for the period is recognized as an expense.

Interest income is recognized using the effective interest method. Dividend income is recognized when the rights to receive such dividends and amounts thereof are determined.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, and financial instruments with maturity of three months or less at the time of purchase. These financial instruments are readily convertible into cash without significant transaction costs and bear low risks from changes in value due to interest rate fluctuations.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method.

Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories are determined using the moving-weighted average method. Goods-in-transit and land use the specific identification method. Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense. Replacement cost is used for the estimate of net realizable value of supplies. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed up to the original carrying amount before valuation. The said reversal is deducted from cost of sales.

Investments in Securities

Costs of debt securities and equity securities are determined using the specific identification method and the moving-weighted average method, respectively. Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of

KT Corporation
Notes to Non-Consolidated Financial Statements
December 31, 2010 and 2009

companies, over which the Company exercises a significant control or influence, are recorded using the equity method of accounting. Trading securities are classified as current assets while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expense. Realized gains and losses on available-for-sale securities are recognized in the income statement.

Equity-Method Investments

Company reflects any changes in the equity of its equity-method investments after the initial purchase date. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. All other changes in equity should be accounted for under other comprehensive income and expense.

In case the investee is also a subsidiary of the parent company, the net income and net assets of the investee in its non-consolidated financial statements should be equal to the corresponding share of the parent company presented in the consolidated financial statements, unless the equity method of accounting has been discontinued on the said investee.

Property and Equipment

Property and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. It also includes the present value of the estimated cost of dismantling and removing the asset, and restoring the site after the termination of the asset's useful life, provided it meets the criteria for recognition of provisions.

KT Corporation
Notes to Non-Consolidated Financial Statements
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Property and equipment are stated net of accumulated depreciation calculated based on using straight-line and declining-balance methods with the following estimated useful lives:

	Estimated Useful Lives
Building	5 - 60 years
Structures	5 - 40 years
Telecommunications equipment	3 - 40 years
Vehicles	4 - 8 years
Others	2 - 20 years

Expenditures incurred after the acquisition or completion of assets are capitalized if they enhance the value of the related assets over their recently appraised value or extend the useful life of the related assets. Routine maintenance and repairs are charged to expense as incurred.

Intangible Assets

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization calculated based on using straight-line method and the following estimated useful lives:

	Estimated Useful Lives
Goodwill	10 years
Industrial property rights	5 - 10 years
Development costs	3 - 8 years
Software	4 - 8 years
Frequency usage rights	5 years and 9 months or 13 years from the date of service commencement
Others	
Building rights	30, 50 years
Copyrights	50 years
Others	10 - 20 years

Development costs which are individually identifiable and directly related to a new technology or to new products which carry probable future benefits are capitalized as intangible assets. Amortization of development cost begins at the commencement of the commercial production of the related products or use of the related technology.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition.

KT Corporation

Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

Non-Capitalization of Interest Expense

The Company expenses the interest it incurs on borrowings used to finance the cost of manufacturing, acquisition, and construction of inventory and property and equipment that require more than one year to complete from the initial date of manufacture, acquisition, and construction.

Government Grants

Government grants received, which are to be repaid, are recorded as liability, while grants without obligation to be repaid are offset against cost of assets purchased with such grants. Grants received for a specific purpose are offset against the specific expense for which it was granted, and other grants are recorded as a gain for the period.

Impairment of Assets

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to agree with recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. Reversal of impairment of goodwill is not allowed.

Derivatives

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes in fair value of derivative instruments are recognized either under the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized under the shareholders' equity under accumulated other comprehensive income and expense.

Income Tax and Deferred Income Tax

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or

KT Corporation
Notes to Non-Consolidated Financial Statements
December 31, 2010 and 2009

operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

Discounts on Debentures

Discounts on debentures are amortized over the term of the debentures using the effective interest rate method. Amortization of the discount is recorded as part of interest expense.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the date of statement of financial position.

The Company has partially funded the accrued severance benefits through severance insurance deposits with an insurance company. Deposits made by the Company are recorded as deductions from accrued severance benefits. The excess portion of deposits over accrued severance benefits is recorded as other investments.

The Company deposits a certain portion of severance benefits to National Pension Service according to National Pension Law. The deposit amount is recorded as a deduction from accrued severance benefits.

Provisions and Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

Finance Leases

The Company accounts for lease transactions as either operating lease or finance lease, depending on the terms of the lease agreement. A finance lease is a lease that transfers substantially all the risks and rewards incidental to the ownership of an asset. The lower of the present value of minimum lease payments and the fair value of the lease asset is recognized as the value of the capital lease

KT Corporation
Notes to Non-Consolidated Financial Statements
December 31, 2010 and 2009

asset or liability. Annual minimum lease payments, excluding residual value, are allocated to interest expense, or for the redemption of capital lease liability using the effective interest method.

Operating Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. The annual minimum lease payments, less guaranteed residual value, are charged to expense on a regular basis over the lease term.

Valuation of Assets and Liabilities at Present Value

Receivables and payables resulting from long-term installment payment transactions, long-term cash loans or other similar borrowings, are valued at their present values, discounted at an appropriate discount rate when the difference between the nominal value and present value is material. The present value discounts are amortized or recovered using the effective interest rate method and are recognized as interest income or expense over the term of the contract.

Translation of Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the date of statement of financial position, and the resulting translation gains and losses are recognized in current operations.

Currency Translation for Foreign Operations

Assets and liabilities of a foreign branch or company subject to the equity method of accounting for investments are translated into Korean won at the rates of exchange in effect at the date of statement of financial position, while their equity is translated at the exchange rate at the time of transaction, and income statement accounts at the average rate over the period. Resulting translation gains and losses are recorded as accumulated other comprehensive income and expense.

Share-based Payments

In case of equity-settled share-based payment, the fair value of the goods or employee services received in exchange for the grant of the options is recognized as an expense and a capital adjustment. If the fair value of goods or employee services cannot be estimated reliably, the fair value is estimated based on the fair value of the equity granted.

For cash-settled share-based payment, the fair value of the obligation the Company will assume is determined by the fair value of the goods or employee services received in exchange for the grant of the options. Until the liability is settled, the Company is required to measure the fair value at the date

KT Corporation
Notes to Non-Consolidated Financial Statements
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of statement of financial position and at settlement date. The change in fair value is recognized as an expense.

Share-based payment transactions with an option for the parties to choose between cash and equity settlement are accounted for based on the substance of the transaction.

Joint Venture

A joint venture is a contractual agreement to establish joint control over business, assets or entities. In case of jointly controlled entities that involve the establishment of a corporation, partnership or other entity in which each participant has an interest, the Company applies the equity method of accounting. As of December 31, 2010, the Company holds 50 % of ownership in Kumho Rent-A-Car Global Co., Ltd., and applies the equity method of accounting (Note 7).

Accounting Estimates

The preparation of the non-consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

3. Restricted Deposits

Restricted deposits as of December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010	2009	Description
Cash and cash equivalents	₩ 9,494	₩ 10,241	Restricted for research and development
Short-term investment assets	-	15	Business cooperation contract specified deposits
	6,465	5,564	Restricted for investing in media contents
Other investment assets	8	3	Checking account deposits
	<u>₩ 15,967</u>	<u>₩ 15,823</u>	
Total			

See Report of Independent Auditors.

KT Corporation
Notes to Non-Consolidated Financial Statements
December 31, 2010 and 2009

4. Trade Accounts Receivable and others

Trade accounts receivable and others as of December 31, 2010 and 2009, are as follows:

(in millions of Korean won)

	2010				2009			
	Allowance for				Allowance for			
	Total	Doubtful		Book	Total	Doubtful		Book
	Amounts	Accounts	Discount	Value	Amounts	Accounts	Discount	Value
Trade accounts receivable	₩4,158,081	₩ (474,246)	₩ (48,285)	₩3,635,550	₩3,958,897	₩ (439,959)	₩ (28,569)	₩3,490,369
Other receivables	412,848	(120,773)	(31)	292,044	332,470	(134,607)	(72)	197,791
Long-term trade accounts								
and notes receivable	869,475	(7,123)	(75,741)	786,611	441,545	(2,678)	(47,578)	391,289
Long-term other accounts payable	256,406	-	(4,649)	251,757	309,653	-	(9,198)	300,455
Long-term trade accounts payable	18,103	-	(3,631)	14,472	20,843	-	(4,635)	16,208

5. Inventories

Inventories as of December 31, 2010 and 2009, are as follows:

(in millions of Korean won)	2010			2009		
	Acquisition	Valuation	Book Value	Acquisition	Valuation	Book Value
	cost	allowance		cost	allowance	
Merchandise	₩ 509,581	₩ (34,731)	₩ 474,850	₩ 540,937	₩ (41,346)	₩ 499,591
Supplies	26,431	(196)	26,235	30,315	(662)	29,653
Others	58,366	-	58,366	77,565	-	77,565
Total	₩ 594,378	₩ (34,927)	₩ 559,451	₩ 648,817	₩ (42,008)	₩ 606,809

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KT Corporation
Notes to Non-Consolidated Financial Statements
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6. Available-for-sale Securities

Available-for-sale securities as of December 31, 2010 and 2009, are as follows:

(In millions of Korean won)

	2010		2009	
Marketable equity securities ¹				
Solitech Co., Ltd.	₩	2,684	₩	2,348
Digital Ocean Co., Ltd. (formerly GaeaSoft Corp.)		214		487
Krtnet Corp.		2,536		2,626
PT. Mobile-8 Telecom Tbk		2,561		2,504
Show Mirae Asset PEF 1		3,274		2,168
		<u>11,269</u>		<u>10,133</u>
Non-marketable equity securities ¹				
Korea Information Certificate Authority, Inc.		1,000		2,000
Vacom Wireless, Inc.		641		641
Neighbor Systems Co., Ltd.		525		525
Entaz Co., Ltd.		1,000		1,000
Smart Channel Co., Ltd.(formerly Mediapuff Plus) ²		500		500
SBS KT SPC		25,000		15,000
IBK-Auctus Green Growth PEF		7,000		100
MBC KT SPC		11,000		11,000
Korea Software Financial Cooperative		1,000		1,000
Daesung Private Equity Fund		3,000		3,000
Translink Capital Partners I, L.P. ³		2,430		5,222
Translink Management II Fund ⁴		1,731		-
Pacren Walden Ventures Parallel VI-KT, L.P. ⁵		5,858		3,652
Sovik Contents Investment Fund		1,304		1,304
Korea Telecommunications Operators Association		689		689
GE Premier 1 st CR-REIT		3,000		-
Wooridle Film Investment Fund No. 1 ⁶		563		-
Others		3,745		3,299
		<u>69,986</u>		<u>48,932</u>
Debt securities				
Others		-		1,200
Total	₩	<u>81,255</u>	₩	<u>60,265</u>

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¹ The fair value of marketable equity securities is determined using quoted market prices as of year-end. Non-marketable equity securities are recognized at acquisition cost if the fair value of the securities cannot be reliably measured due to lack of basis and experience. But if the reasonably estimated recoverable amounts of non-marketable securities are less than the carrying amounts and the amount of deficiency is material then, the securities are recognized at the recoverable amounts by deducting the deficiency from the carrying amounts directly.

² The securities are pledged as collateral for borrowings of investee.

³ During the year ended December 31, 2010, the Company recognized ₩2,792 million of loss on impairment of investment securities as non-operating expense.

⁴ Although the Company's ownership interest in this investee is 48.29%, the investee is an entrusted asset in substance and the Company concludes that it has no significant influence over this investee. Accordingly, the Company classifies this investment as an available-for-sale security.

⁵ Although the Company's ownership interest in this investee is 99.01%, the investee is an entrusted asset in substance and the Company concludes that it has no significant influence over this investee. Accordingly, the Company classifies this investment as an available-for-sale security.

⁶ The Company has no significant influence due to withdrawal from the fund. Accordingly, the Company reclassifies this investment as an available-for-sale security.

Total interest income earned from available-for-sale securities amounted to ₩6 million (2009: ₩61 million).

Maturities of debt securities as of December 31, 2010 and 2009, are as follows:

(In millions of Korean won)

	2010	2009
Within 1 year	₩ -	₩ 1,200

For the years ended December 31, 2010 and 2009, gain and loss from available-for-sale securities are as follows:

	2010			
(In millions of Korean won)	2010.1.1	Increase (Decrease)	Realized	2010.12.31
Equity securities	₩ 2,669	₩ 405	₩ (168)	₩ 2,906
Deferred income tax				(639)
Total				₩ 2,267

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	2009			
	2009.1.1	Increase (Decrease)	Realized	2009.12.31
<i>(In millions of Korean won)</i>				
Equity securities	₩ 1,012	₩ 1,657	₩ -	₩ 2,669
Deferred income tax				(587)
Total				₩ 2,082

7. Equity-method Investments

Equity-method investments as of December 30, 2010 and 2009, are as follows:

	2010				2009		
	Percentage of Ownership	Acquisition Cost	Net Book Value of Investee	Recorded Book Value	Acquisition Cost	Net Book Value of Investee	Recorded Book Value
KT Powertel Co., Ltd	44.85%	₩ 55,135	₩ 43,515	₩ 43,515	₩ 55,135	₩ 37,419	₩ 37,419
KT Networks Corporation	100.00%	23,458	51,371	51,210	23,458	49,050	48,684
KT Linkus Co., Ltd.	93.82%	24,502	7,570	7,570	24,502	6,282	6,282
Telecop Service Co., Ltd.	88.82%	40,378	30,374	30,374	40,378	26,045	26,045
KT Hitel Co., Ltd.	65.94%	67,780	119,129	119,129	67,780	120,078	120,078
KT Submarine Co., Ltd.	36.92%	8,085	25,497	25,497	8,085	24,370	24,370
KT Commerce, Inc. ¹⁰	19.00%	1,330	2,060	2,060	1,330	1,782	1,782
KT Tech, Inc. ^{1, 5}	93.76%	37,587	18,360	-	17,587	(1,740)	-
KT Rental Co., Ltd. ²	58.00%	161,953	150,997	165,724	41,690	69,130	69,074
KT Capital Co., Ltd.	73.74%	101,000	147,438	147,438	101,000	126,092	126,092
Sidus FNH Co.	51.00%	27,999	3,673	3,673	27,999	3,522	3,522
Sidus FNH BMC Cinema Investment Fund(formerly Sidus FNH Benex Cinema Investment Fund)	20.00%	6,000	3,002	3,002	6,000	3,074	3,074
Nasmedia, Inc.	50.00%	26,055	16,613	22,504	26,055	14,215	23,051
Sofnics Inc.	53.33%	600	471	471	600	610	610
KT Edui Co., Ltd. (formerly JungBoPremiumEdu Co., Ltd.)	70.31%	10,500	203	885	10,500	1,804	3,031
KT New Business Fund No. 1 ⁵	90.91%	20,000	20,243	20,243	10,000	10,112	10,112
KT DataSystems Co., Ltd.	95.31%	12,000	28,371	27,810	12,000	19,616	19,616

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KT M Hows Co., Ltd.	51.00%	2,550	3,599	3,599	2,550	3,344	3,344
KT M&S Co., Ltd.	100.00%	150,000	26,288	21,095	150,000	46,246	37,564
KT Music Corporation	48.69%	26,242	10,807	16,008	26,242	10,693	17,417
KT Innotz Inc.	60.00%	3,000	2,209	2,209	3,000	3,000	3,000
KTC Media Contents Fund No. 2	43.50%	3,045	2,978	2,978	3,045	3,045	3,045
Gyeonggi-KT Green Growth Fund	40.32%	12,500	12,559	12,559	12,500	12,480	12,480
KT Internal Venture Fund No. 2	94.34%	5,000	4,840	4,840	5,000	4,780	4,780
KT Estate Inc. ³	100.00%	8,000	8,045	8,045	-	-	-
KT Strategic Investment Fund No.1 ³	90.91%	10,000	9,946	9,946	-	-	-
Korea Telecom America, Inc. ¹²	100.00%	4,783	4,097	4,097	4,783	4,064	4,064
Korea Telecom Japan Co., Ltd. ¹²	100.00%	6,586	4,515	4,515	6,586	3,995	3,995
Korea Telecom China Co., Ltd. ¹²	100.00%	1,245	2,418	2,418	1,245	2,160	2,160
New Telephone Company, Inc. ¹²	79.96%	33,064	161,206	161,206	33,064	168,654	168,654
KTSC Investment Management B.V. ¹²	60.00%	40,970	35,054	32,254	40,970	39,074	36,275
PT.KT Indonesia ¹²	99.00%	234	68	68	234	108	108
Kumho Rent-A-Car Global Co., Ltd ^{2, 6, 12}	50.00%	2,032	589	943	-	-	-
Korea Telecom Directory Co., Ltd. ¹²	34.00%	6,800	(2,559)	-	6,800	(2,283)	-
KBSi Co., Ltd. ¹²	32.38%	4,760	6,874	6,874	4,760	5,259	5,259
CU Industrial Development Co., Ltd. ^{9, 12}	19.00%	506	9,198	9,198	506	12,769	12,769
KTCS Corporation ^{9, 11, 12}	17.05%	3,800	19,613	19,613	3,800	16,449	16,449
KTIS Corporation ^{9, 11, 12}	17.80%	2,850	19,432	19,432	2,850	16,413	16,413
Korea Digital Satellite Broadcasting Co., Ltd. ¹²	32.12%	195,228	29,089	29,089	195,228	12,857	12,857
MOS Facilities Co., Ltd. ^{9, 12}	15.93%	5,000	101	101	5,000	114	114
Kiwoom Investment Co., Ltd. ¹²	20.17%	9,000	7,858	7,858	9,000	7,175	7,175
Korea Information & Technology Fund ¹²	33.33%	100,000	122,042	122,042	100,000	115,636	115,636
Exdell Corporation ^{9, 12}	19.00%	190	273	273	190	239	239
Information Technology Solution Bukbu Corporation ^{9, 12}	18.00%	180	368	368	180	376	376
Information Technology Solution Nambu Corporation ^{9, 12}	18.00%	180	360	360	180	381	381
Information Technology Solution Seobu Corporation ^{9, 12}	18.00%	180	434	434	180	451	451
Information Technology Solution Busan Corporation ^{9, 12}	18.00%	180	322	322	180	339	339
Information Technology Solution Jungbu Corporation ^{9, 12}	18.00%	180	470	470	180	458	458
Information Technology Solution Honam Corporation ^{9, 12}	18.00%	180	434	434	180	414	414
Information Technology Solution Deagu Corporation ^{9, 12}	18.00%	180	245	245	180	269	269
Everyshow ¹²	20.69%	1,500	688	688	1,500	1,045	1,045
KT-Global New Media Fund ¹²	50.00%	14,000	12,663	12,663	14,000	12,932	12,932
Company K Movie Asset Fund No. 1 ¹²	60.00%	9,000	9,362	9,362	9,000	8,806	8,806

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Boston Global Film & Contents Fund L.P. ¹²	27.69%	8,696	8,823	8,823	8,696	8,769	8,769
OIC Co., Ltd. (formerly OIC Language Visual Limited) ¹²	20.00%	200	41	41	200	183	183
Mongolian Telecommunications ¹²	40.00%	3,450	12,312	12,312	3,450	11,135	11,135
Metropol Property LLC ¹²	34.00%	1,739	628	1,373	1,739	640	1,684
WiBro Infra Co., Ltd. ¹²	26.22%	65,000	65,502	65,502	-	-	-
Harex Info Tech Inc. ^{9, 12}	14.77%	3,375	433	433	3,375	62	62
Boston Film Fund ¹²	38.96%	7,461	1,383	1,383	8,000	4,249	4,249
KTF-CJ Music Contents Investment Fund ¹²	50.00%	5,000	4,952	4,952	5,000	4,955	4,955
Shinhan-KT Mobilecard Co., Ltd. ¹²	50.00%	1,000	(1)	-	1,000	248	248
KT-DoCoMo Mobile Investment Fund ¹²	45.00%	4,500	4,858	4,858	4,500	4,473	4,473
MetroM Co., Ltd. ^{9, 12}	19.88%	80	179	179	80	147	147
KDNET Co., Ltd. ^{9, 12}	19.88%	80	142	142	80	147	147
GOODTECH Co., Ltd. ^{9, 12}	19.88%	80	180	180	80	153	153
Touchtel Co., Ltd. ^{9, 12}	19.90%	100	183	183	100	180	180
KNS Co.,Ltd (formerly Excelnet Co., Ltd.) ¹²	20.62%	249	259	259	100	120	120
KMTEC Co., Ltd. ^{9, 12}	19.90%	100	185	185	100	183	183
MTT Co., Ltd. ^{9, 12}	19.90%	100	221	221	100	206	206
Goodmorning F Co., Ltd. ^{9, 12}	19.00%	254	891	891	254	1,696	1,696
Wooridle Film Investment Fund ^{9, 12}	-	-	-	-	1,391	1,285	1,285
eNtoB Corp. ^{8, 12}	-	-	-	-	3,000	5,160	5,160
WMC Co., Ltd. ^{7, 12}	-	-	-	-	80	98	98
Sky Life Contents Fund ^{8, 12}	-	-	-	-	4,500	3,751	3,751
Total		₩1,388,971	₩1,296,543	₩1,299,628	₩1,163,037	₩ 1,071,043	₩ 1,080,994

¹ The Company participated in uneven rights offering of KT Tech, amounting to ₩20,000 million, increasing the Company's percentage of ownership from 78.78% to 93.76%, reflected as a negative capital adjustment of equity-method investees of ₩1,517 million and other comprehensive expenses of equity-method investees of ₩18,483 million.

² On June 1, 2010, the non-auto rental division KT Rental was spun off, while the auto rental division of Kumho Rent-A-Car was merged with KT Rental. Accordingly, the Company's ownership in KT Rental decreased from 100% to 58%.

³ These companies are newly established in 2010.

⁴ The investments in the investees were reclassified as an available-for-sale in 2010.

⁵ The Company additionally acquired the shares of the investees in 2010.

⁶ The Company newly acquired the shares of the investees in 2010.

⁷ WMC Co., Ltd. merged with KNS Co.,Ltd. in 2010.

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⁸ The Company sold all of the investments of eNtoB Corp in 2010.

⁹ As of December 31, 2010, the Company's ownership of the investees is less than 20%. Since the Company can exercise significant influence or control over the investees, the investments are classified as equity method investment.

¹⁰ As of December 31, 2010, the Company and its subsidiary have more than 20% of ownership in the investee.

¹¹ The shares of the investees are listed on the Korea Exchange in 2010.

¹² The Company applies the equity method of accounting using the unaudited financial statements of the investees.

Details of changes in the differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investees are as follows:

	2010			
	Increase			
(in millions of Korean won)	2010.1.1	(Decrease)	Amortization	2010.12.31
KT Edui Co., Ltd.				
(formerly JungBoPremiumEdu				
Co., Ltd.)	₩ 1,227	₩ -	₩ (545)	₩ 687
KT Rental Co., Ltd.	-	28,974	(3,497)	25,477
Kumho Rent-A-Car	-	1,415	(1,062)	353
Metropol Property LLC	1,044	-	(298)	746
KT Music Corporation	6,724	-	(1,522)	5,202
Nasmedia, Inc.	8,836	-	(2,945)	5,891
Total	₩ 17,831	₩ 30,389	₩ (9,869)	₩ 38,351

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	2009			
	2009.1.1	Increase (Decrease)	Amortization	2009.12.31
<i>(in millions of Korean won)</i>				
KT Edui Co., Ltd. (formerly JungBoPremiumEdu Co., Ltd.)	₩ 1,773	₩ -	₩ (546)	₩ 1,227
KT Freetel Co., Ltd.	195,170	(140,956)	(54,214)	-
KT FDS Co., Ltd.	3,752	(3,463)	(289)	-
Nasmedia, Inc.	11,782	-	(2,946)	8,836
KT Music Corporation	-	8,031	(1,307)	6,724
Korea Digital Satellite Broadcasting Co., Ltd.	10,928	-	(10,928)	-
Harex Info Tech Inc.	-	223	(223)	-
U-Mobile	-	971	(971)	-
Metropol Property LLC	1,342	-	(298)	1,044
Total	₩ 224,747	₩ (135,194)	₩ (71,722)	₩ 17,831

Details of the elimination of unrealized gain or loss arising from intercompany transactions according to the equity method of accounting are as follows:

	2010			2009		
	Inventories	Property and Equipment	Total	Inventories	Property and Equipment	Total
<i>(In millions of Korean won)</i>						
KT Networks Corporation	₩ 162	₩ -	₩ 162	₩ 366	₩ -	₩ 366
KT Rental Co., Ltd.	215	10,535	10,750	56	-	56
KT M&S Co., Ltd.	4,815	377	5,192	8,130	552	8,682
KT Tech, Inc.	25,426	-	25,426	19,892	-	19,892
KTSC Investment Management B.V.	-	2,799	2,799	-	2,799	2,799
Total	₩ 30,618	₩ 13,711	₩ 44,329	₩ 28,444	₩ 3,351	₩ 31,795

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Changes in investment in subsidiaries and associates accounted for using the equity-method are as follows:

(In millions of Korean won)

Investee	2010					2010.12.31
	2010.1.1	Acquisition (Disposal)	Valuation Gain (Loss)	Other Increase (Decrease)		
KT Powertel Co., Ltd	₩ 37,419	₩ -	₩ 6,096	₩ -		₩ 43,515
KT Networks Corporation	48,684	-	2,526	-		51,210
KT Linkus Co., Ltd.	6,282	-	1,288	-		7,570
Telecop Service Co., Ltd.	26,045	-	4,329	-		30,374
KT Hitel Co., Ltd.	120,078	-	(958)	9		119,129
KT Submarine Co., Ltd.	24,370	-	1,531	(404)		25,497
KT Commerce, Inc.	1,782	-	278	-		2,060
KT Tech, Inc.	-	20,000	-	(20,000)		-
KT Rental Co., Ltd.	69,074	-	(4,051)	100,701		165,724
KTR Co., Ltd.	-	(32,731)	-	32,731		-
KT Capital Co., Ltd.	126,092	-	20,472	874		147,438
Sidus FNH Co.	3,522	-	189	(38)		3,673
Sidus FNH BMC Cinema Investment Fund(formerly Sidus FNH Benex Cinema Investment Fund)	3,074	-	(72)	-		3,002
Nasmedia, Inc.	23,051	-	(547)	-		22,504
Sofnics Inc.	610	-	(139)	-		471
KT Edui Co., Ltd. (formerly JungBoPremiumEdu Co., Ltd.)	3,031	-	(2,955)	809		885
KT New Business Fund No. 1	10,112	10,000	131	-		20,243
KT DataSystems Co., Ltd.	19,616	-	8,245	(51)		27,810
KT M Hows Co., Ltd.	3,344	-	258	(3)		3,599
KT M&S Co., Ltd.	37,564	-	(16,469)	-		21,095
KT Music Corporation	17,417	-	(1,289)	(120)		16,008
KT Innotz Inc.	3,000	-	(791)	-		2,209
KTC Media Contents Fund No. 2	3,045	-	(67)	-		2,978
Gyeonggi-KT Green Growth Fund	12,480	-	79	-		12,559
KT Internal Venture Fund No. 2	4,780	-	60	-		4,840
KT Estate Inc.	-	8,000	45	-		8,045
KT Strategic Investment Fund No.1	-	10,000	(54)	-		9,946
Korea Telecom America, Inc.	4,064	-	135	(102)		4,097

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Korea Telecom Japan Co., Ltd.	3,995	-	90	430	4,515
Korea Telecom China Co., Ltd.	2,160	-	237	21	2,418
New Telephone Company, Inc.	168,654	-	24,758	(32,206)	161,206
KTSC Investment Management B.V.	36,275	-	(1,890)	(2,131)	32,254
PT.KT Indonesia	108	-	(43)	3	68
Kumho Rent-A-Car Global	-	148,393	(1,719)	(145,731)	943
KBSi Co., Ltd.	5,259	-	1,615	-	6,874
CU Industrial Development Co., Ltd.	12,769	-	(3,571)	-	9,198
KTCS Corporation	16,449	-	3,127	37	19,613
KTIS Corporation	16,413	-	3,569	(550)	19,432
Korea Digital Satellite Broadcasting Co., Ltd.	12,857	-	16,072	160	29,089
MOS Facilities Co., Ltd.	114	-	(253)	240	101
Kiwoom Investment Co., Ltd.	7,175	-	462	221	7,858
Korea Information & Technology Fund	115,636	-	6,915	(509)	122,042
Exdell Corporation	239	-	34	-	273
Information Technology Solution Bukbu Corporation	376	-	(8)	-	368
Information Technology Solution Nambu Corporation	381	-	(21)	-	360
Information Technology Solution Seobu Corporation	451	-	(17)	-	434
Information Technology Solution Busan Corporation	339	-	(17)	-	322
Information Technology Solution Jungbu Corporation	458	-	12	-	470
Information Technology Solution Honam Corporation	414	-	20	-	434
Information Technology Solution Deagu Corporation	269	-	(24)	-	245
Everyshow	1,045	-	(378)	21	688
KT-Global New Media Fund	12,932	-	(269)	-	12,663
Company K Movie Asset Fund No. 1	8,806	-	556	-	9,362
Boston Global Film & Contents Fund L.P.	8,769	-	54	-	8,823
OIC Co., Ltd.					
(formerly OIC Language Visual Limited)	183	-	(142)	-	41
Mongolian Telecommunications	11,135	-	(27)	1,204	12,312
Metropol Property LLC	1,684	-	(44)	(267)	1,373
WiBro Infra Co., Ltd.	-	65,000	505	(3)	65,502
Harex Info Tech Inc.	62	-	28	343	433
Boston Film Fund	4,249	(538)	(2,338)	10	1,383
KTF-CJ Music Contents Investment Fund	4,955	-	(3)	-	4,952
Shinhan-KT Mobilecard Co., Ltd.	248	-	(248)	-	-
KT-DoCoMo Mobile Investment Fund	4,473	-	385	-	4,858

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MetroM Co., Ltd.	147	-	32	-	179
KDNET Co., Ltd.	147	-	(5)	-	142
GOODTECH Co., Ltd.	153	-	27	-	180
Touchtel Co., Ltd.	180	-	3	-	183
KNS Co.,Ltd (formerly Excelnet Co., Ltd.)	120	149	(17)	7	259
KMTEC Co., Ltd.	183	-	2	-	185
MTT Co., Ltd.	206	-	15	-	221
Goodmorning F Co., Ltd.	1,696	(884)	77	2	891
Wooridle Film Investment Fund	1,285	-	(447)	(838)	-
eNtoB Corp.	5,160	(5,306)	296	(150)	-
WMC Co., Ltd.	98	-	19	(117)	-
Sky Life Contents Fund	3,751	(3,812)	61	-	-
	<u>₩ 1,080,994</u>	<u>₩ 218,271</u>	<u>₩ 65,760</u>	<u>₩ (65,397)</u>	<u>₩ 1,299,628</u>

(In millions of Korean won)

Investee	2009				
	2009.1.1	Acquisition (Disposal)	Valuation Gain (Loss)	Other Increase (Decrease)	2009.12.31
KT Powertel Co., Ltd	₩ 31,622	₩ -	₩ 5,797	₩ -	₩ 37,419
KT Networks Corporation	57,158	-	(8,643)	169	48,684
KT Linkus Co., Ltd.	568	-	5,714	-	6,282
Telecop Service Co., Ltd.	23,554	-	2,491	-	26,045
KT Hitel Co., Ltd.	118,479	-	6,540	(4,941)	120,078
KT Submarine Co., Ltd.	20,667	-	3,834	(131)	24,370
KT Commerce, Inc.	1,500	-	282	-	1,782
KT Tech, Inc.	127	-	(127)	-	-
KT Rental Co., Ltd.	54,734	-	14,340	-	69,074
KT Capital Co., Ltd.	103,199	-	15,573	7,320	126,092
Sidus FNH Co.	4,816	1,875	(3,168)	(1)	3,522
Sidus FNH BMC Cinema Investment Fund(formerly Sidus FNH Benex Cinema Investment Fund)	3,232	1,612	(1,770)	-	3,074
Nasmedia, Inc.	24,851	-	(1,800)	-	23,051
Sofnics Inc.	432	-	(58)	236	610
KT Edui Co., Ltd. (formerly JungBoPremiumEdu Co., Ltd.)	4,077	4,500	(3,775)	(1,771)	3,031
KT New Business Fund No. 1	10,209	-	117	(214)	10,112
KT DataSystems Co., Ltd.	10,022	3,140	6,655	(201)	19,616

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KT M Hows Co., Ltd.	-	3,062	280	2	3,344
KT M&S Co., Ltd.	-	49,785	(12,221)	-	37,564
KT Music Corporation	-	21,125	(3,708)	-	17,417
KT Innotz Inc.	-	3,000	-	-	3,000
KTC Media Contents Fund No. 2	-	3,045	-	-	3,045
Gyeonggi-KT Green Growth Fund	-	12,500	(20)	-	12,480
KT Internal Venture Fund No. 2	5,203	-	(423)	-	4,780
Korea Telecom America, Inc.	4,237	-	142	(315)	4,064
Korea Telecom Japan Co., Ltd.	3,614	-	778	(397)	3,995
Korea Telecom China Co., Ltd.	1,999	-	330	(169)	2,160
New Telephone Company, Inc.	166,914	-	28,924	(27,184)	168,654
KTSC Investment Management B.V.	35,787	10,111	(5,089)	(4,534)	36,275
PT.KT Indonesia	-	122	(15)	1	108
Korea Telecom Directory Co., Ltd.	8,358	-	(8,358)	-	-
KBSi Co., Ltd.	4,679	-	580	-	5,259
CU Industrial Development Co., Ltd.	8,369	-	4,350	50	12,769
KTCS Corporation	13,666	1,050	1,771	(38)	16,449
KTIS Corporation	12,812	1,539	2,233	(171)	16,413
Korea Digital Satellite Broadcasting Co., Ltd.	31,167	1,770	(3,905)	(16,175)	12,857
MOS Facilities Co., Ltd.	41	-	(275)	348	114
Kiwoom Investment Co., Ltd.	6,953	-	54	168	7,175
Korea Information & Technology Fund	77,636	33,451	3,806	743	115,636
Exdell Corporation	218	-	21	-	239
Information Technology Solution Bukbu Corporation	225	(13)	164	-	376
Information Technology Solution Nambu Corporation	221	(13)	173	-	381
Information Technology Solution Seobu Corporation	222	(13)	242	-	451
Information Technology Solution Busan Corporation	246	(13)	106	-	339
Information Technology Solution Jungbu Corporation	295	(15)	178	-	458
Information Technology Solution Honam Corporation	248	(13)	179	-	414
Information Technology Solution Deagu Corporation	218	(12)	63	-	269
Everyshow	1,226	-	(181)	-	1,045
KT-Global New Media Fund	5,817	8,000	(885)	-	12,932
Company K Movie Asset Fund No. 1	8,803	-	3	-	8,806
Boston Global Film & Contents Fund L.P.	-	8,696	73	-	8,769
OIC Co., Ltd.					
(formerly OIC Language Visual Limited)	-	200	(17)	-	183

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Mongolian Telecommunications	13,289	-	910	(3,064)	11,135
Metropol Property LLC	1,776	-	-	(92)	1,684
Harex Info Tech Inc.	-	350	(288)	-	62
Boston Film Fund	-	4,307	(58)	-	4,249
KTF-CJ Music Contents Investment Fund	-	4,763	192	-	4,955
Shinhan-KT Mobilecard Co., Ltd.	-	530	(282)	-	248
KT-DoCoMo Mobile Investment Fund	-	4,485	(12)	-	4,473
MetroM Co., Ltd.	-	224	(77)	-	147
KDNET Co., Ltd.	-	94	53	-	147
GOODTECH Co., Ltd.	-	170	(17)	-	153
Touchtel Co., Ltd.	-	93	87	-	180
KNS Co.,Ltd (formerly Excelnet Co., Ltd.)	-	89	31	-	120
KMTEC Co., Ltd.	-	153	30	-	183
MTT Co., Ltd.	-	178	28	-	206
Goodmorning F Co., Ltd.	1,460	-	235	1	1,696
Wooridle Film Investment Fund	1,320	-	(35)	-	1,285
eNtoB Corp.	4,240	826	224	(130)	5,160
WMC Co., Ltd.	-	97	2	(1)	98
Sky Life Contents Fund	3,737	-	14	-	3,751
KT FDS Co., Ltd.	3,911	-	(448)	(3,463)	-
KT Freetel Co., Ltd.	2,560,107	-	73,546	(2,633,653)	-
OLIVE9	2,769	(1,303)	(1,448)	(18)	-
U Mobile	-	5,830	(5,982)	152	-
KSCALL	327	(449)	281	(159)	-
KOSNC	341	(541)	200	-	-
KCALL	332	(515)	183	-	-
TMWORLD	320	(474)	154	-	-
UMSNC	293	(465)	172	-	-
	<u>₩ 3,462,643</u>	<u>₩ 186,933</u>	<u>₩ 119,050</u>	<u>₩ (2,687,632)</u>	<u>₩ 1,080,994</u>

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Book and market value of marketable equity-method investments are as follows:

2010					
	Number of Shares	Stock Price per	Market Value	Book Value	
	Ow ned	share	<i>(In millions of Korean won)</i>	<i>(In millions of Korean won)</i>	
KT Hitel Co., Ltd.	22,750,000	₩ 8,160.0	₩ 185,640	₩ 119,129	
KT Submarine Co., Ltd.	1,617,000	20,550.0	33,229	25,497	
KT Music Corporation	14,494,258	2,710.0	39,279	16,008	
KTCS Corporation	8,132,130	2,210.0	17,972	19,613	
KTIS Corporation	6,196,190	3,510.0	21,749	19,432	
Mongolian Telecommunications	10,348,111	3,413.1	35,319	12,312	

2009					
	Number of Shares	Stock Price per	Market Value	Book Value	
	Ow ned	share	<i>(In millions of Korean won)</i>	<i>(In millions of Korean won)</i>	
KT Hitel Co., Ltd.	22,750,000	₩ 7,250.0	₩ 164,938	₩ 120,078	
KT Submarine Co., Ltd.	1,617,000	15,200.0	24,578	24,370	
KT Music Corporation	14,494,258	3,635.0	52,687	17,417	
Mongolian Telecommunications	10,348,111	1,878.8	19,432	11,135	

Summary of financial information of major equity-method investees follows:

(In millions of Korean won)

2010					
Investee	Assets	Liabilities	Revenue	Net Income(Loss)	
KT Powertel Co., Ltd	₩ 165,838	₩ 68,805	₩ 127,491	₩ 13,592	
KT Networks Corporation	171,875	120,503	342,449	2,321	
KT Linkus Co., Ltd.	68,458	60,014	75,747	1,237	
Telecop Service Co., Ltd.	130,410	96,214	216,651	4,874	
KT Hitel Co., Ltd.	223,225	37,744	149,845	(2,739)	
KT Submarine Co., Ltd.	99,180	30,117	70,785	4,371	
KT Commerce, Inc.	42,787	31,946	162,484	1,464	
KT Tech, Inc.	129,052	109,470	341,514	1,725	
KT Rental Co., Ltd.	933,557	673,211	378,775	13,797	
KT Capital Co., Ltd.	2,037,839	1,837,892	176,389	27,763	

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Sidus FNH Co.	13,915	6,713	19,582	370
Sidus FNH Benex Cinema Investment Fund	15,014	2	878	(359)
Nasmedia, Inc.	77,176	43,950	18,847	4,797
Sofnics Inc.	1,023	139	609	(261)
KT Edui Co., Ltd.	1,880	1,591	4,283	(2,654)
KT New Business Fund No. 1	22,601	169	518	81
KT DataSystems Co., Ltd.	147,950	118,184	355,542	8,144
KT M Hows Co., Ltd.	15,825	8,768	37,638	506
KT M&S Co., Ltd.	265,446	239,158	615,972	(19,959)
KT Music Corporation	32,546	10,352	40,112	600
KT Innotz Inc.	5,277	1,596	3,741	(1,318)
KTC Media Contents Fund No. 2	7,023	178	200	(156)
Gyeonggi-KT Green Growth Fund	31,150	3	975	197
KT Internal Venture Fund No. 2	5,200	70	100	24
KT Estate Inc.	8,443	398	1,152	45
KT Strategic Investment Fund No.1	11,067	125	106	(59)
Korea Telecom America, Inc.	5,645	1,548	8,827	136
Korea Telecom Japan Co., Ltd.	13,669	9,154	14,631	91
Korea Telecom China Co., Ltd.	2,610	193	2,089	237
New Telephone Company, Inc.	220,209	18,610	129,263	33,001
KTSC Investment Management B.V.	58,649	227	706	(3,150)
PT.KT Indonesia	70	1	-	(43)
Others	2,016,893	763,679	1,877,583	92,875

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(In millions of Korean won)

(In millions of Korean won)	2009							
	Investee	Assets		Liabilities		Revenue	Net Income(Loss)	
KT Powertel Co., Ltd	₩	156,347	₩	72,906	₩	126,000	₩	12,927
KT Networks Corporation		165,860		116,810		324,422		(8,139)
KT Linkus Co., Ltd.		69,371		62,675		80,950		6,098
Telecop Service Co., Ltd.		108,992		79,670		152,238		2,876
KT Hitel Co., Ltd.		217,331		35,235		133,852		9,916
KT Submarine Co., Ltd.		101,700		35,688		59,644		10,321
KT Commerce, Inc.		62,693		53,316		46,136		1,480
KT Tech, Inc.		101,637		103,846		320,014		(27,306)
KT Rental Co., Ltd.		359,156		290,026		89,375		14,258
KT Capital Co., Ltd.		1,554,901		1,383,901		140,971		17,783
Sidus FNH Co.		15,399		8,492		4,578		(2,521)
Sidus FNH Benex Cinema Investment								
Fund		15,372		-		2,147		(8,871)
Nasmedia, Inc.		64,353		35,924		13,173		2,290
Sofnics Inc.		1,308		164		886		(75)
KT Edui Co., Ltd.		2,312		508		1,535		(5,920)
KT New Business Fund No. 1		11,292		168		-		129
KT DataSystems Co., Ltd.		131,396		110,226		256,221		7,464
KT M Hows Co., Ltd.		14,856		8,299		20,088		281
KT M&S Co., Ltd.		217,099		170,853		427,269		(36,136)
KT Music Corporation		34,021		12,060		38,613		(5,317)
KT Innotz Inc.		5,000		-		-		-
KTC Media Contents Fund No. 2		7,038		37		38		1
Gyeonggi-KT Green Growth Fund		30,954		4		130		(50)
KT Internal Venture Fund No. 2		5,088		21		169		(448)
Korea Telecom America, Inc.		5,608		1,789		5,942		142
Korea Telecom Japan Co., Ltd.		14,101		10,106		22,343		778
Korea Telecom China Co., Ltd.		2,410		370		2,101		330
New Telephone Company, Inc.		229,549		18,635		131,410		36,173
KTSC Investment Management B.V.		65,266		143		558		(3,816)
PT.KT Indonesia		113		4		312		(42)
Others		1,573,927		625,162		1,867,839		58,456

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The financial statements of the following investees were adjusted to reflect the Company's accounting policies on certain accounting treatments. Details of the adjustment are as follows:

<i>(In millions of Korean won)</i>	Net Asset before		Net Asset after		Notes
	Adjustments	Adjustments	Adjustments	Adjustments	
KT Linkus Co., Ltd.	₩ 7,922	₩ (352)	₩ 7,570		Adjustment of equity method investment
KT Hitel Co., Ltd.	122,310	(3,181)	119,129		Adjustment of equity method investment
KT New Business Fund No. 1	20,393	(150)	20,243		Adjustment of equity method investment
Korea Digital Satellite Broadcasting Co., Ltd.	47,317	(18,228)	29,089		Adjustment of equity (redeemable preferred stock)
Korea Information & Technology Fund.	122,094	(52)	122,042		Adjustment of dividends payable
Total	₩ 320,036	₩ (21,963)	₩ 298,073		

The changes in the respective accumulated losses of the equity-method investees for which the application of the equity method of accounting has been suspended due to their accumulated losses, are as follows:

<i>(In millions of Korean won)</i>	2010			2009		
	Increase			Increase		
	2010.1.1	(Decrease)	2010.12.31	2009.1.1	(Decrease)	2009.12.31
KT Tech, Inc.	₩ (21,632)	₩ 14,565	₩ (7,067)	₩ -	₩ (21,632)	₩ (21,632)
Korea Telecom Directory Co., Ltd.	(2,283)	(506)	(2,789)	-	(2,283)	(2,283)
Shinhan-KT Mobilecard Co., Ltd.	-	(1)	(1)	-	-	-
Total	₩ (23,915)	₩ 14,058	₩ (9,857)	₩ -	₩ (23,915)	₩ (23,915)

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8. Property and Equipment

The changes in property and equipment for the years ended December 31, 2010 and 2009, are as follows:

(In millions of Korean won)	2010							Total
	Land	Buildings	Structures	Telecommunications equipment	Vehicles	Others	Construction - in-progress	
Balance at 2010.1.1	₩ 1,434,336	₩ 3,279,019	₩ 146,124	₩ 8,520,629	₩ 2,210	₩ 298,988	₩ 522,526	₩14,203,832
Acquisition	-	-	-	13,492	-	19,696	2,522,988	2,556,176
Disposal	(523)	(8,277)	(9,648)	(143,395)	(3)	(23,708)	-	(185,554)
Depreciation	-	(147,277)	(14,289)	(2,320,655)	(1,374)	(168,052)	-	(2,651,647)
Impairment	-	-	-	-	-	(8,778)	-	(8,778)
Transfer	6,063	119,392	5,647	2,125,746	9	104,450	(2,361,307)	-
Others	(17,547)	(21,266)	530	10,682	-	61,591	(178)	33,812
Balance at 2010.12.31	₩ 1,422,329	₩3,221,591	₩128,364	₩ 8,206,499	₩ 842	₩284,187	₩ 684,029	₩13,947,841
Acquisition cost	₩ 1,422,461	₩ 4,950,491	₩ 318,263	₩ 39,328,340	₩ 36,363	₩1,518,400	₩ 726,739	₩ 48,301,057
Accumulated depreciation	-	(1,726,341)	(188,803)	(31,029,470)	(35,521)	(1,223,228)	-	(34,203,363)
Accumulated impairment loss	-	-	-	-	-	(8,778)	-	(8,778)
Customers' contribution to construction costs	(132)	(2,559)	(1,096)	(92,371)	-	(2,207)	(42,710)	(141,075)

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	2009							
	Telecommu- nications				Construction			
(In millions of Korean won)	Land	Buildings	Structures	equipment	Vehicles	Others	- in-progress	Total
Balance at 2009.1.1	₩ 1,138,193	₩ 3,015,577	₩ 152,341	₩ 5,771,207	₩ 2,465	₩ 168,315	₩ 180,576	₩ 10,428,674
Increase by merger	118,692	329,426	8,627	3,206,308	1,459	173,309	81,286	3,919,107
Acquisition	-	40	-	14,935	2	11,731	2,345,078	2,371,786
Disposal	(11,895)	(11,895)	(463)	(65,602)	(24)	(17,412)	-	(107,291)
Depreciation	-	(142,091)	(14,560)	(2,113,983)	(1,731)	(139,728)	-	(2,412,093)
Transfer	189,346	87,962	179	1,738,909	39	37,940	(2,054,375)	-
Others	-	-	-	(31,145)	-	64,833	(30,039)	3,649
Balance at 2009.12.31	₩ 1,434,336	₩ 3,279,019	₩ 146,124	₩ 8,520,629	₩ 2,210	₩ 298,988	₩ 522,526	₩ 14,203,832
Acquisition cost	₩ 1,434,468	₩ 4,888,849	₩ 334,954	₩ 39,642,231	₩ 41,539	₩1,675,652	₩ 583,149	₩ 48,600,842
Accumulated depreciation	-	(1,607,163)	(187,503)	(31,010,741)	(39,329)	(1,374,438)	-	(34,219,174)
Accumulated impairment loss	-	-	-	(22)	-	-	-	(22)
Customers' contribution to construction costs	(132)	(2,667)	(1,327)	(110,839)	-	(2,226)	(60,623)	(177,814)

Certain land and buildings are pledged as collaterals for the rental and leasehold contracts with the maximum amount of ₩68,169 million (2009: ₩65,092 million).

As of December 31, 2010, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, was ₩5,406,092 million (2009: ₩5,505,192 million).

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9. Intangible Assets

The changes in intangible assets for the years ended December 31, 2010 and 2009, are as follows:

<i>(In millions of Korean won)</i>	2010						
	Goodwill¹	Industrial rights	Development costs	Software	Frequency usage rights	Others	Total
Balance at 2010.1.1	₩ 65,057	₩ 9,480	₩ 221,184	₩ 145,600	₩ 694,627	₩ 70,639	₩ 1,206,587
Acquisition	-	403	242,521	53,265	-	5,353	301,542
Disposal	-	-	(13,520)	(4,983)	-	(1,942)	(20,445)
Amortization	(65,057)	(1,695)	(109,673)	(43,488)	(115,416)	(15,134)	(350,463)
Others	-	-	757	-	-	-	757
Balance at 2010.12.31	₩ -	₩ 8,188	₩ 341,269	₩ 150,394	₩ 579,211	₩ 58,916	₩ 1,137,978
Acquisition cost	₩ 140,956	₩ 23,153	₩ 933,438	₩ 364,755	₩ 1,342,023	₩ 186,967	₩ 2,991,292
Accumulated amortization	(140,956)	(14,965)	(592,169)	(214,361)	(762,812)	(128,051)	(1,853,314)
Accumulated impairment loss	-	-	-	-	-	-	-

<i>(In millions of Korean won)</i>	2009						
	Goodwill¹	Industrial rights	Development costs	Software	Frequency usage rights	Others	Total
Balance at 2009.1.1	₩ -	₩ 5,052	₩ 187,361	₩ 85,622	₩ 69,253	₩ 49,758	₩ 397,046
Increase by merger	140,956	4,583	865	46,881	701,821	29,104	924,210
Acquisition	-	1,081	136,080	49,940	-	6,127	193,228
Disposal	-	-	(3,319)	(233)	-	(933)	(4,485)
Amortization	(75,899)	(1,406)	(99,803)	(36,610)	(76,447)	(11,447)	(301,612)
Impairment	-	-	-	-	-	(1,970)	(1,970)
Others	-	170	-	-	-	-	170
Balance at 2009.12.31	₩ 65,057	₩ 9,480	₩ 221,184	₩ 145,600	₩ 694,627	₩ 70,639	₩ 1,206,587
Acquisition cost	₩ 140,956	₩ 22,767	₩ 767,451	₩ 345,995	₩ 1,342,023	₩ 206,870	₩ 2,826,062
Accumulated amortization	(75,899)	(13,287)	(546,267)	(200,395)	(647,396)	(127,195)	(1,610,439)
Accumulated impairment loss	-	-	-	-	-	(9,036)	(9,036)

¹ The acquisition cost of goodwill is assessed at the date of merger at June 1, 2009.

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The research and development expenses for the years ended December 31, 2010 and 2009, are as follows:

<i>(In millions of Korean won)</i>	2010		2009	
Research expense	₩	266,170	₩	234,638
Development expense		12,558		441
Total	₩	278,728	₩	235,079

As a significant expenditure, which is expected to have future economic benefits but is not capitalized in the year incurred because they are not under the Company's control, training expense amounted to ₩28,139 million (2009: ₩18,388 million).

On December 15, 2000, KTF acquired the license to provide third generation mobile services utilizing 2GHz frequency band ("IMT-2000 service") for which KTF has agreed to pay a total ₩1.3 billion to the Korea Communications Commission ("KCC") as a license fee. Upon the merger with KTF, the unpaid license fee of ₩320,000 million was assumed by the Company and the balance as of December 31, 2010, amounted to ₩170,000 million.

10. Insurance

As of December 31, 2010, the summary of assets covered under the insurance programs with Samsung Fire and Marine Insurance Co., Ltd. and other insurance companies are as follows:

		Coverage	
<i>(In millions of Korean won)</i>	Insurance type	2010	2009
Inventories	Theft and fire	₩ 110,000	₩ 111,000
Buildings	Fire	1,189,850	1,295,219
Telecommunications equipment	Satellite orbit and others	312,457	129,736
Total		₩ 1,612,307	₩ 1,535,955

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11. Government Grants and Customers' Contribution

The changes in government grants and customers' contribution to construction costs for the years ended December 31, 2010, and 2009, are as follows:

<i>(In millions of Korean won)</i>	2010				
	2010.1.1	Increase	Decrease	Transfer	2010.12.31
Land	₩ 132	₩ -	₩ -	₩ -	₩ 132
Buildings	2,667	-	(108)	-	2,559
Structures	1,327	-	(231)	-	1,096
Telecommunications equipment	110,839	-	(39,577)	21,109	92,371
Others	2,226	-	(1,319)	1,300	2,207
Construction- in-progress	60,623	4,496	-	(22,409)	42,710
Total	₩ 177,814	₩ 4,496	₩ (41,235)	₩ -	₩ 141,075

<i>(In millions of Korean won)</i>	2009				
	2009.1.1	Increase	Decrease	Transfer	2009.12.31
Land	₩ 132	₩ -	₩ -	₩ -	₩ 132
Buildings	2,188	-	(233)	712	2,667
Structures	1,507	-	(185)	5	1,327
Telecommunications equipment	119,087	-	(50,154)	41,906	110,839
Others	1,784	-	(1,308)	1,750	2,226
Construction- in-progress	107,675	16,028	(18,707)	(44,373)	60,623
Total	₩ 232,373	₩ 16,028	₩ (70,587)	₩ -	₩ 177,814

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12. Derivatives

For the years ended December 31, 2010 and 2009, the Company entered into various derivatives contracts with financial institutions. Details of these derivative contracts are as follows:

Type of transaction	Financial institution	Description
Interest rate swaps	Merrill Lynch	Exchange fixed interest rate for variable interest rate for a specified period
Currency swaps	Merrill Lynch and 3 others	Exchange foreign currency cash flow for local currency cash flow
Combined interest rate currency swap	Merrill Lynch and 17 others	Exchange foreign currency variable interest rate swaps for local currency fixed interest rate

The assets and liabilities relating to outstanding contracts as of December 31, 2010 and 2009, are as follows:

		2010								
<i>(In millions of Korean won and thousands of foreign currencies)</i>		Contract amount	Assets (Current)		Assets (Non-current)		Liabilities (Current)		Liabilities (Non-current)	
Interest rate swap		₩180,000	₩	1,213	₩	-	₩	-	₩	-
		USD 100,000								
Currency swap		USD 220,000		-		34,193		-		6,560
Combined interest rate		USD 1,460,000								
currency swap		JPY 19,500,000		149,415		62,973		-		13,277
Total			₩	150,628	₩	97,166	₩	-	₩	19,837

		2009								
<i>(In millions of Korean won and thousands of foreign currencies)</i>		Contract amount	Assets (Current)		Assets (Non-current)		Liabilities (Current)		Liabilities (Non-current)	
Interest rate swap		₩180,000	₩	-	₩	23	₩	4,674	₩	-
		USD 100,000								
Currency swap		USD 220,000		-		47,547		-		3,782
Combined interest rate		USD 1,410,000								
currency swap		JPY 19,500,000		-		247,488		-		-
Total			₩	-	₩	295,058	₩	4,674	₩	3,782

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Details of the currency swap and combined interest rate currency swap contracts to which hedge accounting is applied as of December 31, 2010 and 2009, are as follows:

(In millions of Korean won and thousands of foreign currencies)				Assets		Assets		Liabilities	
				(Current)		(Non-current)		(Non-current)	
	Contract date	Maturity date	Contract amount	2010.12.31	2009.12.31	2010.12.31	2009.12.31	2010.12.31	2009.12.31
Cash flow hedge									
Currency swap ¹	2007.4.4	2012.4.11	USD 150,000	₩ -	₩ -	₩ 34,193	₩ 42,839	₩ -	₩ -
	2008.10.6	2012.4.11	USD 50,000	-	-	-	-	5,930	3,782
	2009.6.20	2034.9.7	USD 20,000	-	-	-	4,708	630	-
Combined	2008.1.4	2011.1.11	JPY 12,500,000	67,510	-	-	48,908	-	-
interest rate	2008.3.20	2011.3.31	USD 50,000	6,216	-	-	7,751	-	-
currency swap ¹	2008.3.20	2012.3.31	USD 110,000	-	-	12,366	18,233	-	-
	2008.9.2	2013.9.11	USD 200,000	-	-	-	5,988	9,527	-
	2010.4.9	2013.4.9	USD 100,000	-	-	-	-	3,750	-
	2009.6.20	2014.6.24	USD 600,000	-	-	38,443	66,812	-	-
	2009.6.20	2015.7.15	USD 100,000	-	-	12,164	20,172	-	-
	2008.2.25 ²	2011.2.25	USD 175,000	33,735	-	-	37,236	-	-
	2008.4.28 ²	2011.4.28	JPY 7,000,000	29,998	-	-	20,098	-	-
	2008.6.20 ²	2011.6.20	USD 95,000	9,269	-	-	10,522	-	-
	2008.3.12 ^{2,3}	2010.12.13	USD -	-	-	-	8,785	-	-
	2008.7.2 ²	2011.4.4	USD 30,000	2,683	-	-	2,983	-	-
Sub-total				149,415	-	97,166	295,035	19,387	3,782
Fair value hedge									
Interest rate swap ⁴	2009.9.1	2011.12.1	KRW 180,000	1,213	-	-	23	-	-
Total				₩ 150,628	₩ -	₩ 97,166	₩ 295,058	₩ 19,837	₩ 3,782

Valuation gain on the derivatives for trading, amounting to ₩4,674 million (2009: ₩5,352 million), is recognized in current operations.

¹ In applying the cash flow hedge accounting, the Company hedges its exposures to cash flow fluctuation until September 7, 2034. Approximately ₩6,374 million of net derivative loss included in accumulated other comprehensive income at December 31, 2010, is expected to be recognized in current operations within 12 months from that date.

² Contract date of derivatives transferred from KTF represents the initial date mentioned on each contract.

³ The remaining principal of the derivative is repaid at maturity during the year ended December 31, 2010.

⁴ Above interest rate swap contract is to hedge the risk of variability in future fair value from the bond and, accordingly, the loss on valuation of the swap contract amounting to ₩1,190 million is included in operations for the year ended December 31, 2010.

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The valuation gains and losses on the derivatives contracts for years ended December 31, 2010 and 2009, are as follows:

2010						
<i>(In millions of Korean won)</i>						
Type of Transaction	For trading		For hedging			
	Valuation gain	Valuation loss	Valuation gain	Valuation loss	Accumulated other comprehensive income¹	
Interest rate swap	₩ 4,674	₩ -	₩ 1,190	₩ -	₩	-
Currency swap	-	-	-	6,096		(11,942)
Combined interest rate currency swap	-	-	33,595	41,385		(38,476)
Total	₩ 4,674	₩ -	₩ 34,785	₩ 47,481	₩	(50,418)

2009						
<i>(In millions of Korean won)</i>						
Type of Transaction	For trading		For hedging			
	Valuation gain	Valuation loss	Valuation gain	Valuation loss	Accumulated other comprehensive income¹	
Interest rate swap	₩ 5,352	₩ -	₩ 23	₩ -	₩	-
Currency swap	-	9,574	250	17,005		(3,809)
Combined interest rate currency swap	-	69,816	4,605	89,282		(23,095)
Put option	223	-	-	-		-
Total	₩ 5,575	₩ 79,390	₩ 4,878	₩106,287	₩	(26,904)

¹ The amounts directly reflected in equity before adjustments of deferred income tax.

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13. Bonds payable and long-term borrowings

Bonds Payable

(In millions of Korean won and thousands of foreign currencies)

Type	Maturity	Annual Interest Rates	2010.12.31		2009.12.31	
			Foreign Currency	Korean Won	Foreign Currency	Korean Won
MTNP notes ¹	2014.6.24	5.88%	USD 600,000	₩683,340	USD 600,000	₩700,560
MTNP notes ¹	2034.9.7	6.50%	USD 100,000	113,890	USD 100,000	116,760
MTNP notes ¹	2015.7.15	4.88%	USD 400,000	455,560	USD 400,000	467,040
MTNP notes ¹	2016.5.3	5.88%	USD 200,000	227,780	USD 200,000	233,520
Euro bonds	2012.4.11	5.13%	USD 200,000	227,780	USD 200,000	233,520
FR notes ³	2013.9.11	Libor(3M) +1.5%	USD 200,000	227,780	USD 200,000	233,520
FR notes ³	2013.4.9	Libor(3M) +0.47%	USD 100,000	113,890	-	-
The 132nd Public bond	2011.2.9	7.68%	-	70,000	-	70,000
The 159th Public bond	2013.10.27	5.39%	-	300,000	-	300,000
The 160th Public bond	2010.11.24	5.45%	-	-	-	200,000
The 161st Public bond	2010.12.23	5.61%	-	-	-	230,000
The 162nd Public bond	2011.2.27	5.52%	-	320,000	-	320,000
The 163rd Public bond	2014.3.30	5.51%	-	170,000	-	170,000
The 164th Public bond	2011.6.21	5.22%	-	260,000	-	260,000
The 165-1st Public bond	2011.8.26	4.22%	-	130,000	-	130,000
The 165-2nd Public bond	2014.8.26	4.44%	-	140,000	-	140,000
The 166-1st Public bond	2010.3.21	4.37%	-	-	-	220,000
The 166-2nd Public bond	2012.3.21	4.57%	-	100,000	-	100,000
The 167-1st Public bond	2012.4.20	4.59%	-	100,000	-	100,000
The 167-2nd Public bond	2015.4.20	4.84%	-	100,000	-	100,000
The 168-1st Public bond	2012.6.21	4.43%	-	240,000	-	240,000
The 168-2nd Public bond	2015.6.21	4.66%	-	90,000	-	90,000
The 169th Public bond	2012.4.3	5.01%	-	140,000	-	140,000
The 170th Public bond ³	2011.1.11	Tibor(3M) +0.6%	JPY12,500,000	174,635	JPY12,500,000	157,853
The 171st Public bond	2013.2.28	5.41%	-	100,000	-	100,000
The 172-1st Public bond ³	2011.3.31	Libor(3M) +1.5%	USD 50,000	56,945	USD 50,000	58,380
The 172-2nd Public bond ³	2012.3.31	Libor(3M) +1.6%	USD 110,000	125,279	USD 110,000	128,436
The 173-1st Public bond	2013.8.6	6.49%	-	100,000	-	100,000
The 173-2nd Public bond	2018.8.6	6.62%	-	100,000	-	100,000
The 174-1st Public bond	2010.12.19	5.34%	-	-	-	100,000
The 174-2nd Public bond	2011.12.19	5.56%	-	130,000	-	130,000

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The 175-1st Public bond	2012.2.27	4.80%	-	40,000	-	40,000
The 175-2nd Public bond	2014.2.27	5.47%	-	360,000	-	360,000
The 176-1st Public bond	2012.5.28	4.37%	-	100,000	-	100,000
The 176-2nd Public bond	2014.5.28	5.06%	-	170,000	-	170,000
The 176-3rd Public bond	2016.5.28	5.24%	-	260,000	-	260,000
The 177-1st Public bond	2013.2.9	4.86%	-	240,000	-	-
The 177-2nd Public bond	2015.2.9	5.26%	-	190,000	-	-
The 177-3rd Public bond	2017.2.9	5.38%	-	170,000	-	-
The 47-2nd Public bond ²	2011.7.12	5.32%	-	70,000	-	70,000
The 48th Public bond ²	2010.2.15	5.31%	-	-	-	200,000
The 49th Public bond ^{2, 3}	2011.2.25	Libor(3M) +1.5%	USD 175,000	199,308	USD 175,000	204,330
The 50th Public bond ^{2, 3}	2011.4.28	Tibor(3M) +1.6%	JPY 7,000,000	97,796	JPY 7,000,000	88,397
The 51-1st Public bond ^{2, 3}	2011.6.20	Libor(3M) +1.6%	USD 95,000	108,196	USD 95,000	110,922
The 51-2nd Public bond ²	2013.6.20	6.41%	-	70,000	-	70,000
The 52-1st Private bond ²	2011.8.4	6.20%	-	100,000	-	100,000
The 52-2nd Public bond ²	2013.8.4	6.64%	-	100,000	-	100,000
The 53-1st Public bond ²	2010.12.1	8.23%	-	-	-	20,000
The 53-2nd Public bond ²	2011.12.1	8.36%	-	<u>181,212</u>	-	<u>180,023</u>
Total				7,453,391		7,743,261
Less: Current portion				(1,898,092)		(970,000)
Less: Discount on bonds				<u>(26,654)</u>		<u>(34,158)</u>
Net				<u>₩5,528,645</u>		<u>₩6,739,103</u>

¹ As of December 31, 2010, the Company has issued notes in the amount of USD 1,300 million with fixed interest rates under Medium Term Note Program ("MTNP") registered in the Singapore Stock Exchange, which allows issuance of notes of up to USD 2,000 million, with the unused balance under the program amounting to USD 700 million.

² The bond is newly included due to the merger with KTF on June 1, 2009.

³ The Libor (3M) and Tibor (3M) are approximately 0.30% and 0.34%, respectively, as of December 31, 2010.

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Long-term Borrowings

(In millions of Korean won and thousands of foreign currencies)

Type	Annual Interest Rates	2010.12.31		2009.12.31	
		Foreign Currency	Korean Won	Foreign Currency	Korean Won
Informatization Promotion Fund ¹	4.29%	-	₩ 30,938	-	₩ 30,218
Inter-Korean Cooperation Fund ¹	2.00%	-	6,415	-	6,415
Facility loans (Korea Development Bank) ²	Libor(3M) +2%	-	-	USD 40,000	46,704
Facility loans (Bank of Communications) ²	Libor(3M) +2%	USD 30,000	34,167	USD 30,000	35,028
Total			71,520		118,365
Less: Current portion			(43,181)		(55,221)
Net			₩ 28,339		₩ 63,144

¹ The above Informatization Promotion Funds are repayable in installments over three years after a two-year grace period, while Inter-Korean Cooperation Fund is repayable in installments over 13 years after a seven-year grace period.

² The borrowing is newly included due to the merger with KTF on June 1, 2009.

Repayment Schedule

Repayment schedule of the Company's bonds and long-term borrowings as of December 31, 2010, is as follows:

(In millions of Korean won)

Year ending December 31	Bonds			Borrowings			Total
	In local currency	In foreign currency	Sub- total	Borrowings in local currency	Borrowings in foreign currency	Sub- total	
2011	₩ 1,261,213	₩ 636,879	₩ 1,898,092	₩ 9,014	₩ 34,167	₩ 43,181	₩ 1,941,273
2012	720,000	353,059	1,073,059	9,028	-	9,028	1,082,087
2013	910,000	341,670	1,251,670	6,849	-	6,849	1,258,519
2014	840,000	683,340	1,523,340	5,002	-	5,002	1,528,342
Thereafter	910,000	797,230	1,707,230	7,460	-	7,460	1,714,690
Total	₩ 4,641,213	₩ 2,812,178	₩ 7,453,391	₩ 37,353	₩ 34,167	₩ 71,520	₩ 7,524,911

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14. Accrued Severance Benefits

Changes in accrued severance benefits for the years ended December 31, 2010 and 2009, are as follows:

<i>(In millions of Korean won)</i>	2010	2009
Balance at 2010.1.1	1,413,453	1,592,433
Payment	(466,498)	(362,204)
Increase	195,176	183,224
Balance at 2010.12.31	1,142,131	1,413,453
Less : Severance insurance deposits	(813,885)	(1,100,723)
Less : Cumulative deposits to the National Pension Fund	(12)	(12)
Total	328,234	312,718

As of December 31, 2010, the Company estimates severance payable to all employees to be ₩1,142,131 million (2009: ₩1,413,453 million) and records the corresponding amount as accrued severance benefits. Also, the Company funded 71.26% (2009: 77.87%) of severance payable through severance insurance deposits with Samsung Life Insurance.

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15. Provisions

Changes in provisions for the years ended December 31, 2010 and 2009, are as follows:

(In millions of Korean won)	2010					
	2010.1.1	Increase Contribution	Transfer	Decrease Usage	Reversal	2010.12.31
Current portion						
Litigation ¹	₩ 17,010	₩ 9,630	₩ -	₩ (2,116)	₩ (964)	₩ 23,560
KT members points ²	546	-	-	-	(546)	-
KT points ³	3,591	-	-	(1,639)	-	1,952
Call bonus points ⁴	7,271	-	12,990	(11,942)	-	8,319
Olleh club points ⁵	-	-	27,013	(7,912)	-	19,101
Others	4,339	42,590	-	(11,757)	(7,006)	28,166
Sub-total	32,757	52,220	40,003	(35,366)	(8,516)	81,098
Non-current portion						
KT points ³	2,457	-	-	-	(1,016)	1,441
Call bonus points ⁴	6,438	14,711	(12,990)	-	-	8,159
Olleh club points ⁵	-	29,063	(27,013)	-	-	2,050
Asset retirement obligation ⁶	89,805	21,994	-	(6,929)	(8,353)	96,517
Sub-total	98,700	65,768	(40,003)	(6,929)	(9,369)	108,167
Total	₩ 131,457	₩ 117,988	₩ -	₩(42,295)	₩(17,885)	₩ 189,265

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(In millions of Korean won)	2009						
	2009.1.1	Increase		Transfer	Decrease		2009.12.31
		Contribution	Merger ⁸		Usage	Reversal	
Current portion							
Litigation ¹	₩ 19,572	₩ -	₩ 2,204	₩ -	₩ (4,766)	₩ -	₩ 17,010
KT members points ²	681	-	-	-	(110)	(25)	546
KT points ³	4,774	-	-	4,642	(5,825)	-	3,591
Call bonus points ⁴	419	5,057	-	4,999	(3,204)	-	7,271
Loss from SI business ⁷	1,915	-	-	-	(1,915)	-	-
Others	-	-	4,627	-	-	(288)	4,339
Sub-total	27,361	5,057	6,831	9,641	(15,820)	(313)	32,757
Non-current portion							
KT points ³	7,099	-	-	(4,642)	-	-	2,457
Call bonus points ⁴	495	3,701	7,241	(4,999)	-	-	6,438
Asset retirement obligation ⁶	17,693	54,421	26,834	-	(6,188)	(2,955)	89,805
Sub-total	25,287	58,122	34,075	(9,641)	(6,188)	(2,955)	98,700
Total	₩ 52,648	₩ 63,179	₩ 40,906	₩ -	₩(22,008)	₩ (3,268)	₩ 131,457

¹ The amount recognized as litigation provision represents the estimate of payments required to settle the obligation.

² The Company recorded provisions for the KT members points with which VIP customers of the fixed-line or mobile telephone service are entitled to receive certain goods and other benefits for up to ₩25,000 per person.

³ The amount recognized as call bonus points represents the estimate of payments for call bonus points which are provided to fixed-line customers based on the usage of the services. Once certain criteria are met, customers are entitled to receive certain goods and other benefits from the Company. Such provision is reviewed at each reporting date and adjusted to reflect the current best estimates based on changes in circumstances, or an acquisition of new information or additional experience on the usage rate, expiration of points and others.

⁴ The Company recorded provision for the Let's 010 (KT-PCS) call bonus points with which its PCS subscribers are entitled to receive certain goods and other benefits from the Company.

⁵ The Company recognized estimated expenses for the integrated mileage program of wireless membership, wired and wireless mileage, Show point service and Shocking package, which commenced in June 2010.

⁶ When the Company is responsible for restoration of leased facility after termination of the lease contract, the present value of expected future expenditure for the restoration is recorded as a liability.

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⁷ The estimated losses from the system integration projects were recognized.

⁸ The provisions were newly included due to the merger with KTF on June 1, 2009.

16. Lease

As of December 31, 2010, details of lease contracts held by the Company are as follows:

Finance Lease

(In millions of Korean won)

	2010		2009	
Acquisition costs	₩	240,748	₩	215,921
Accumulated depreciation		(137,381)		(117,758)
Net balance	₩	103,367	₩	98,163

Future minimum lease payments are as follows:

(In millions of Korean won)

	2010		2009	
	Minimum lease payment	Present value	Minimum lease payment	Present value
Within one year	₩ 65,982	₩ 48,985	₩ 59,818	₩ 44,184
From one year to five years	114,852	97,389	110,750	93,653
Total	₩ 180,834	₩ 146,374	₩ 170,568	₩ 137,837

Operating Lease

Minimum lease payment schedule is as follows:

(In millions of Korean won)

	2010		2009	
Less than 1 year	₩	20,281	₩	18,386
1 year - 5 years		13,119		7,091
Total	₩	33,400	₩	25,477

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Operating lease expenses incurred for the year ended December 31, 2010, amounted to ₩28,489 million (2009: ₩33,117 million).

17. Commitments and Contingencies

As of December 31, 2010, major commitments with local financial institutions, are as follows:

*(In millions of Korean won
and thousands of foreign currencies)*

	Financial Institution	Limit		Used Amount	
Bank overdraft	Kookmin Bank	₩	600,000	₩	-
	Shinhan Bank		300,000		-
	Woori Bank		330,000		-
	Hana Bank		100,000		-
		₩	1,330,000	₩	-
Commercial papers	Korea Exchange Bank	₩	100,000	₩	-
Loan on information and communications fund	Shinhan Bank	₩	17,812	₩	17,812
	Kookmin Bank		22,755		13,126
		₩	40,567	₩	30,938
Collateralized loan on accounts receivable –trade	Kookmin Bank	₩	250,000	₩	36,198
	Woori Bank		60,000		643
	Hana Bank		100,000		155
	NH Bank		3,000		-
		₩	413,000	₩	36,996
Others	Shinhan Bank	₩	60,000	₩	2,626
	Industrial Bank of Korea		150,000		1,591
	Korea Exchange Bank		5,000		-
		USD	1,000	USD	-

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As of December 31, 2010, guarantees received from financial institutions, are as follows:

<i>(In millions of Korean won and thousands of foreign currencies)</i>	Financial institution	Limit		Used Amount	
Performance guarantee for construction	Seoul Guarantee Insurance	₩	76,313	₩	-
		USD	4,518	USD	4,518
Performance guarantee	Export-Import Bank of Korea	SAR	735	SAR	735
		DZD	25,863	DZD	25,863
Bid guarantee	Korea Software Financial Cooperative ¹	₩	150,000	₩	76,220
				₩	56,628
Bonds payable in	Kookmin Bank	USD	86,652	USD	5,652
foreign currency guarantee	Korea Exchange Bank	USD	5,000	USD	2,191
	Shinhan Bank	USD	16,377	USD	12,367
	HSBC	USD	80,000	USD	-
Advances received guarantee	Export-Import Bank of Korea	USD	2,925	USD	2,925
		DZD	77,589	DZD	77,589
General guarantee	Shinhan Bank	₩	25,140	₩	25,140
	Korea Exchange Bank	₩	3,600		-
Guarantee for import letters of credit	Korea Exchange Bank	USD	5,000	USD	-

¹ The maturities of guarantee contracts have lapsed. However, due to the two-year statute of limitations the Company still receives guarantees amounting to ₩159,903 million from Korea Software Financial Cooperative as of December 31, 2010.

As of December 31, 2010, guarantees provided by the Company for a third party, are as follows:

<i>(In millions of Korean won)</i>	Creditor	Limit		Used amount	Period
Eun-haeng 1-area urban environment Improving project union	Kookmin Bank	₩	2,600	₩ 2,600	2008.4.29~ 2011.3.31

As of December 31, 2010, the Company is a defendant in 110 lawsuits, with an aggregate amount of ₩38,308 million. As of December 31, 2010, litigation provision in relation to the potential loss amounted to ₩23,560 million and is recorded as liabilities. The final outcome of these cases cannot yet be determined as of the report date.

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As of December 31, 2010, the Company's investment in Smart Channel Co., Ltd.(formerly Mediapuff Plus) is pledged as collateral for the investee's borrowings.

18. Assets and Liabilities denominated in Foreign Currencies

Major assets and liabilities denominated in foreign currencies as of December 31, 2010 and 2009, are summarized as follows:

<i>(In millions of Korean won and thousands of foreign currencies)</i>	2010.12.31			2009.12.31		
	Foreign Currencies		Korean Won	Foreign Currencies		Korean Won
Cash and cash equivalents	USD	7,238	8,243	USD	17,920	20,923
Short-term investment assets	USD	15,327	17,456	USD	15,327	17,896
Accounts receivable – trade	USD	115,336	131,356	USD	139,477	162,853
	SDR	5,721	10,098	SDR	15,225	27,868
	EUR	237	359	EUR	82	137
	AUD	-	-	AUD	13	14
Accounts receivable – other	USD	390	444	USD	238	278
Accounts payable – trade	USD	102,225	116,424	USD	118,253	138,072
	SDR	4,256	7,512	SDR	8,566	15,680
	EUR	129	195	EUR	103	172
Bonds (par value)	USD	2,230,000	2,539,748	USD	2,130,000	2,486,988
	JPY	19,500,000	272,431	JPY	19,500,000	246,250
Long-term borrowings	USD	30,000	34,167	USD	70,000	81,732
Others	USD	1,018	1,159	USD	1,311	1,531
	EUR	-	-	EUR	16	27

For the year ended December 31, 2010, the Company recognized ₩64,902 million (2009: ₩232,369 million) and ₩31,447 million (2009: ₩11,524 million) of foreign currency translation gain and loss as non-operating income and expense, respectively.

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19. Common Stock

As of December 31, 2010, the Company's number of authorized shares is one billion.

	2010.12.31			2009.12.31		
	Number of outstanding shares	Par value per share (Korean won)	Common stock (In millions of Korean won)	Number of outstanding shares	Par value per share (Korean won)	Common stock (In millions of Korean won)
Common stock ¹	261,111,808	₩ 5,000	₩ 1,564,499	261,111,808	₩ 5,000	₩ 1,564,499

¹ The Company retired 51,787,959 treasury shares against retained earnings. Therefore, the common stock amount differs from the amount resulting from multiplying the number of shares issued by ₩5,000 par value per share of common stock.

20. Treasury Stock

As of December 31, 2010 and 2009, the details of treasury stock are as follows:

	2010.12.31		2009.12.31	
Number of shares		17,895,964		17,915,340
Amounts (In millions of Korean won)	₩	955,083	₩	956,159

Treasury stock is expected to be used for the stock compensation for the Company's directors and employees and other purposes.

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21. Share-Based Payments

The Company has granted stock options to its executive officers and directors as of December 31, 2010, in accordance with the stock option plan approved by its board of directors, details of which are as follows:

	4th grant	KTF-4th 1
Grant date	2005.2.4	2005.3.4
Grantee	Former executives	Former executives and former outside directors
Number of basic allocated shares upon grant	50,800	92,637
Number of additional shares related to business performance upon grant	20,000	-
Number of shares expected to be exercised upon grant	60,792	92,637
Number of settled or forfeited shares	10,800	13,437
Number of expired shares as of December 31, 2010	-	-
Number of allocated shares as of December 31, 2010	40,000	79,200
Number of additional shares related to business performance as of December 31, 2010	3,153	-
Number of shares expected to be exercised	43,153	79,200
Fair value per share (in Korean won)	₩12,322	₩4,328
Total compensation cost (in millions of Korean won)	₩531	₩343
Exercise price per share (in Korean won)	₩54,600	₩42,684
Exercise period	2007.2.5~2012.2.4	2007.3.5~2012.3.4
Valuation method	Fair value method	Fair value method

¹ The stock options granted to the directors, officers or employees of KTF prior to the merger were converted into stock options on June 1, 2009, granting the rights to purchase the stock of KT based on the merger ratio.

Upon exercise, the Company can elect one of the following settlement methods: issuance of new shares, issuance of treasury stock or cash settlement, subject to certain circumstances.

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The Company adopted the fair value method to measure compensation costs based on the various valuation assumptions and methods, which are as follows:

	4th grant	KTF-4th 1
Risk-free interest rate	4.43%	2.78%
Expected duration(year)	4.5 ~ 5.5	1.5
Expected volatility	33.41%~42.13%	35.03%
Expected dividend yield ratio	5.86%	3.54%

¹ The compensation costs for the stock options granted to the directors, officers or employees of KTF were recalculated considering risk-free rate, expected duration and other on the date of the merger.

Of the total compensation costs calculated using the fair value method, the compensation costs recognized for the year ended December 31, 2010, are as follows:

(In millions of Korean won)

	4th grant	KTF-4th	Total
Total compensation costs before adjustment	₩ 749	₩ 343	₩ 1,092
Total compensation costs cancelled	(217)	-	(217)
Total compensation costs after adjustment	₩ 532	₩ 343	₩ 875
Compensation costs recognized in prior periods	₩ (532)	₩ (343)	₩ (875)

Other share-based payments as of December 31, 2010, are as follows:

	4th grant
Grant date	2010.4.29
Grantee	CEOs, inside directors, outside directors, executives
Estimated number of shares granted	142,436 shares
Estimated number of shares granted	142,436 shares
Vesting conditions	Service condition: 1 year Non-market performance condition: achievement of performance
Fair value per option (in Korean won)	₩47,700
Total compensation costs (in Korean won)	₩6,794 million
Estimated exercise date (exercise date)	During 2011
Valuation method	Fair value method

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Above compensation costs were calculated based on the fair value method and were charged to current operations, as follows:

<i>(In millions of Korean won)</i>		4th grant
Total compensation costs	₩	6,794
Compensation costs recognized in prior periods		-
Compensation costs recognized in the current period		<u>6,794</u>
Compensation costs to be recognized after the current period	₩	<u>-</u>

22. Retained Earnings

The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock with the approval of the Company's Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

The Company appropriates a certain portion of retained earnings, pursuant to a shareholder resolution, as voluntary reserves. These reserves may be reversed and transferred to unappropriated retained earnings through a resolution of shareholders, and may be distributed as dividends after the reversal.

23. Operating Revenues

Operating revenues for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>		2010		2009
Internet	₩	2,492,296	₩	2,386,548
Data communication		1,316,044		1,450,217
Fixed-line telephone		4,286,381		4,760,561
PCS		6,914,452		4,260,674
Goods sold ¹		4,502,887		2,501,230
Other operating revenues ²		<u>721,456</u>		<u>546,944</u>
Operating revenues	₩	<u>20,233,516</u>	₩	<u>15,906,174</u>

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¹ Goods sold represent revenue from the sale of handsets and others.

² Revenues from the system integration and real estate are included.

Details of construction contracts, related to the real estate revenue, as of December 31, 2010, are as follows:

(in millions of Korean won)

	2010			
	Beginning contract balance	Increase	Recognized as revenue	Ending contract balance
Bugae-dong, Incheon	₩ 4,335	₩ -	₩ (4,335)	₩ -
Sungsu-dong, Seoul (Factory building)	18,714	-	(18,714)	-
Garak-dong, Seoul (Office building)	40,733	-	(28,905)	11,828
Yeongdeungpo-gu, Seoul (Factory building)	-	146,733	(6,417)	140,316
Total	₩ 63,782	₩ 146,733	₩ (58,371)	₩ 152,144

(in millions of Korean won)

	2009			
	Beginning contract balance	Increase	Recognized as revenue	Ending contract balance
Bugae-dong, Incheon	₩ 78,872	₩ -	₩ (74,537)	₩ 4,335
Sungsu-dong, Seoul (Hyundai apartment)	13,528	-	(13,528)	-
Sungsu-dong, Seoul (Factory building)	64,477	-	(45,763)	18,714
Garak-dong, Seoul (Office building)	-	48,873	(8,140)	40,733
Total	₩ 156,877	₩ 48,873	₩ (141,968)	₩ 63,782

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Details of the contracts, related to the system integration revenue as of December 31, 2010, are as follows:

(in millions of Korean won)

	2010					
	Beginning contract balance		Increase		Recognized as revenue	Ending contract balance
Lease-type private investment of advanced U-City broadband information network CCTV Construction, Ansan	₩	2,043	₩	-	₩ (2,043)	₩ -
Construction of information highway, Busan		11,393			(346)	11,047
Construction and support for infrastructure and service operation of digital textbook research school		68		-	(68)	-
Second phase construction of national defense transportation information system		5,587			(2,568)	3,019
System integration of SMRT Mall IT and advertising facility construction in Seoul Metropolitan Rapid Transit Corporation		-		69,759	(61,409)	8,350
Management and operation of SMRT Mall business		-		82,000	(4,762)	77,238
Total	₩	19,091	₩	151,759	₩ (71,196)	₩ 99,654

(in millions of Korean won)

	2009					
	Beginning contract balance		Increase		Recognized as revenue	Ending contract balance
Lease-type private investment of advanced U-City broadband information network CCTV Construction, Ansan	₩	-	₩	13,116	₩ (11,073)	₩ 2,043
Construction of information highway, Busan		12,612		-	(1,219)	11,393
Construction and support for infrastructure and service operation of digital textbook research school		-		9,727	(9,659)	68
Second phase construction of national defense transportation information system		-		7,973	(2,386)	5,587
Total	₩	12,612	₩	30,816	₩ (24,337)	₩ 19,091

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24. Operating Expenses

Operating expenses for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010	2009
Salaries and wages	₩ 1,869,080	₩ 1,868,807
Provision for severance benefits	210,736	1,071,706
Employee welfare	307,482	514,908
Utilities	247,339	208,782
Taxes and dues	226,672	159,460
Rent	254,778	177,522
Depreciation	2,583,190	2,355,919
Amortization	332,446	281,441
Repairs and maintenance	520,594	467,684
Commissions	1,362,636	1,088,597
Advertising	164,468	135,634
Research and development	266,170	234,638
Interconnection charges	1,222,478	999,495
Cost of services	552,981	601,483
Commissions for system integration service	263,861	206,423
International call settlement	284,054	245,748
Cost of goods sold	4,288,275	2,271,952
Promotion	1,092,883	785,547
Sales commission	1,757,383	1,412,729
Provision for doubtful accounts	145,610	49,536
Other	280,099	194,882
	<hr/>	<hr/>
Total	18,233,215	15,332,893
Less : Transfer to other accounts	(52,996)	(38,269)
	<hr/>	<hr/>
Net	₩ 18,180,219	₩ 15,294,624
	<hr/>	<hr/>

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25. Income Tax Expense

Income tax expense consists of:

<i>(in millions of Korean won)</i>	2010	2009
Current income tax expense	₩ 328,026	₩ 97,209
Deferred income tax due to temporary differences	(72,239)	(148,711)
Deferred income tax from the merger with KTF	-	203,071
Deferred income tax due to tax credits	80,328	(149,569)
Deferred income tax charged to equity	8,922	6,093
Income tax expense	94	31,539
Income tax expense	₩ 345,131	₩ 39,632

Deferred income taxes charged directly to the shareholders' equity are follows:

<i>(in millions of Korean won)</i>	2010	2009
Gain on valuation of available-for-sale securities	₩ (710)	₩ (597)
Loss on valuation of available-for-sale securities	70	10
Increase in equity of associates	(314)	(76)
Decrease in equity of associates	7,579	6,704
Gain and loss on valuation of derivatives	10,458	281
Other capital adjustments	(5,896)	(4,057)
Total	₩ 11,187	₩ 2,265

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Reconciliation between net income before tax and income tax expense

<i>(in millions of Korean won)</i>	2010	2009
Net income before tax	₩1,516,997	₩ 556,165
Income tax based on statutory rate	₩ 367,087	₩ 134,568
Add (deduct) :		
Non-taxable income	(4,736)	(4,410)
Non-deductible expenses	27,281	24,763
Impact of not recognizing deferred taxes		
on certain temporary differences	(2,679)	(26,218)
Changes in tax adjustments	6,785	13,471
Tax credit carryforwards and tax deductions	(54,373)	(101,280)
Changes in tax rates	7,098	(2,575)
Others, net	(1,332)	1,313
	<u>(21,956)</u>	<u>(94,936)</u>
Income tax expense	₩ 345,131	₩ 39,632
Effective tax rate (income tax over net income before tax)	<u>22.75%</u>	<u>7.13%</u>

Changes in the temporary differences and related deferred tax assets and liabilities are as follows:

2010	Temporary differences			Deferred tax assets (liabilities)	
<i>(in millions of Korean won)</i>	2010.1.1	Increase (Decrease)	2010.12.31	2010.1.1	2010.12.31
Deferred tax arising from temporary differences					
Allowance for doubtful accounts	₩ 472,152	₩ 36,071	₩ 508,223	₩ 113,649	₩ 119,917
Derivatives	(179,497)	42,165	(137,332)	(39,720)	(30,914)
Inventory valuation reserve	42,008	(42,008)	-	10,166	-
Available-for-sale securities	25,734	2,740	28,474	5,662	6,264
Equity method investments	34,240	69,012	103,252	(42,977)	(44,372)
Depreciation	98,352	37,665	136,017	21,637	29,924
Contribution for construction	178,620	(36,857)	141,763	39,296	31,188
Accrued expenses	118,070	(11,166)	106,904	28,573	25,871
Provisions	50,202	27,346	77,548	11,953	17,841
Provision for severance indemnities	1,113,683	(314,191)	799,492	245,010	175,888

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Refundable deposits for telephone

installation	43,677	(1,484)	42,193	9,609	9,283
Accrued revenues	(5,363)	4,206	(1,157)	(1,298)	(280)
Deposits for severance benefits	(1,100,708)	301,216	(799,492)	(242,156)	(175,888)
Unpaid salaries and wages	152,441	50,439	202,880	36,891	49,097
Discounts on installment receivables	137,852	162,389	300,241	34,603	72,171
Provision for restoration	55,860	6,709	62,569	12,289	13,765
Foreign currency translation	392,534	(27,561)	364,973	87,008	81,197
Others	122,005	100,575	222,580	28,519	50,001
Total	₩ 1,751,862	₩ 407,266	₩ 2,159,128	₩ 358,714	₩ 430,953

Deferred tax assets

arising from the carryforwards

Total tax credit carryforwards	₩ 187,913	₩ (89,253)	₩ 98,660	₩ 169,122	₩ 88,794
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2009

(in millions of Korean won)

	Temporary differences			Deferred tax assets (liabilities)	
	2009.1.1	Increase (Decrease)	2009.12.31	2009.1.1	2009.12.31
Deferred tax arising from temporary differences					
Allowance for doubtful accounts	₩ 326,541	₩ 145,611	₩ 472,152	₩ 78,444	₩ 113,649
Derivatives	(357,974)	178,477	(179,497)	(82,479)	(39,720)
Inventory valuation reserve	15,773	26,235	42,008	3,817	10,166
Available-for-sale securities	5,939	19,795	25,734	1,307	5,662
Equity method investments	1,308,341	(1,274,101)	34,240	(40,175)	(42,977)
Depreciation	(20,747)	119,099	98,352	(4,564)	21,637
Contribution for construction	233,106	(54,486)	178,620	51,283	39,296
Accrued expenses	62,975	55,095	118,070	15,240	28,573
Provisions	43,238	6,964	50,202	10,297	11,953
Provision for severance indemnities	1,083,431	30,252	1,113,683	238,355	245,010
Refundable deposits for telephone					
installation	50,932	(7,255)	43,677	11,205	9,609
Accrued revenues	(5,691)	328	(5,363)	(1,377)	(1,298)
Deposits for severance benefits	(1,083,431)	(17,277)	(1,100,708)	(238,355)	(242,156)
Reserve for technology and human resource development	(106,667)	106,667	-	(25,813)	-

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Unpaid salaries and wages	157,701	(5,260)	152,441	38,164	36,891
Discounts on installment receivables	-	137,852	137,852	-	34,603
Provision for restoration	9,585	46,275	55,860	2,109	12,289
Foreign currency translation	620,840	(228,306)	392,534	136,585	87,008
Others	70,879	51,126	122,005	15,960	28,519
Total	<u>₩ 2,414,771</u>	<u>₩ (662,909)</u>	<u>₩ 1,751,862</u>	<u>₩ 210,003</u>	<u>₩ 358,714</u>

Deferred tax assets

arising from the carryforwards

Total tax credit carryforwards	<u>₩ 21,726</u>	<u>₩ 166,187</u>	<u>₩ 187,913</u>	<u>₩ 19,553</u>	<u>₩ 169,122</u>
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The gross balances of deferred tax assets and liabilities are as follows:

	2010.12.31		2009.12.31	
	Current	Non-current	Current	Non-current
Deferred tax assets	₩ 350,133	₩ 421,067	₩ 426,232	₩ 432,332
Deferred tax liabilities	(7,988)	(243,465)	(5,020)	(325,708)
Total	<u>₩ 342,145</u>	<u>₩ 177,602</u>	<u>₩ 421,212</u>	<u>₩ 106,624</u>

Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the Korean economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion and recognized the deferred income tax asset since all the future (deductible) tax benefits are determined to be realizable as of December 31, 2010. But the Company did not recognize the income tax assets resulting from equity-method investments as the Company does not expect the differences from equity-method investments to be reversed within the foreseeable future.

Temporary differences not recognized as a deferred tax asset.

(in millions of Korean won)	2010.12.31	2009.12.31
Valuation of equity-method investments ¹	₩ 304,940	₩ 229,594

¹ The Company did not recognize the income tax effect of temporary differences resulting from equity-method investments as the Company does not expect cash inflows, such as proceeds from the disposal of, or receipts of dividends from equity-method investments, within the foreseeable future.

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26. Comprehensive Income

Comprehensive income for the years ended December 31, 2010 and 2009, consists of:

<i>(in millions of Korean won)</i>	2010	2009
Net income	₩ 1,171,866	₩ 516,533
Gain on valuation of available-for-sale securities	398	1,329
Loss on valuation of available-for-sale securities	(213)	(36)
Changes in equity-method investees with accumulated comprehensive income	261	(12,747)
Changes in equity-method investees with accumulated comprehensive expense	(3,398)	(18,083)
Gain on valuation of financial derivatives	(6,769)	650
Loss on valuation of financial derivatives	(28,384)	(26,534)
Accumulated comprehensive expense	(38,105)	(55,421)
Comprehensive income	₩ 1,133,761	₩ 461,112

27. Earnings Per Share

Basic earnings per share

<i>(in millions of Korean won, except for per share amounts)</i>	2010	2009
Net income attributable to common stock	₩ 1,171,866	₩ 516,533
Weighted-average number of common stock outstanding	243,207,149	219,512,696
Basic earnings per share	₩ 4,818	₩ 2,353

Weighted-average number of treasury stock for the years ended December 31, 2010 and 2009, is adjusted to weighted-average number of common shares outstanding.

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Diluted earnings per share

<i>(in millions of Korean won, except for per share amounts)</i>	2010	2009
Net income attributable to common stock	₩ 1,171,866	₩ 516,533
Adjusted net income attributable to common stock	1,171,866	520,928
Dilutive potential common shares outstanding	18,081	4,655,062
Weighted-average number of common shares outstanding and dilutive common shares	243,225,230	224,167,758
Diluted earnings per share	₩ 4,818	₩ 2,324

Diluted net income per share is calculated by dividing the adjusted net income by the weighted average number of common shares outstanding and dilutive common shares. Stock options and other share-based payments have no dilutive effect and are excluded from the calculation of diluted earnings per share.

Potential common shares as of December 31, 2010 and 2009, are as follows:

	Par value	Issue date	Maturity date	Exercisable Period	Common shares to be issued	
					2010.12.31	2009.12.31
Stock options	¹	Sept. 16, 2003	Sept. 16, 2010	From 2 years after grant date till maturity date	-	3,000
Stock options	²	Feb. 4, 2005	Feb. 4, 2012	Increase in the number of exercisable shares by 1/3 every year after two years from grant date	43,153	43,153
Stock options	³	March 25, 2002	March 25, 2010	From 3 years after grant date till maturity date	-	20,570
Stock options	⁴	Sept. 8, 2003	Sept. 8, 2010	From 2 years after grant date till maturity date	-	219,909
Stock options	⁵	March 4, 2005	March 4, 2012	From 2 years after grant date till maturity date	79,200	79,200
Other share-based payment	⁶	June 20, 2007	Exercised in first half of 2010	On maturity date, subject to the resolution of board of directors	-	11,790
Other share-based payment	⁶	March 27, 2008	Exercised in first half of 2010	On maturity date, subject to the resolution of board of directors	-	13,345
Other share-based payment	⁶	May 7, 2009	Exercised in first half of 2010	On maturity date, subject to the resolution of board of directors	-	29,055
Other share-based payment	⁶	April 29, 2010	Expected to be exercised in 2011	On maturity date, subject to the resolution of board of directors	142,436	-
Total					<u>264,789</u>	<u>420,022</u>

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¹ Exercise price of ₩57,000 per common share.

² Exercise price of ₩54,600 per common share.

³ Exercise price of ₩62,814 per common share.

⁴ Exercise price of ₩41,711 per common share.

⁵ Exercise price of ₩42,684 per common share.

⁶ Shares to be given subject to performance.

28. Dividends

The details of dividends for common stocks included in the Company's non-consolidated statements of appropriation of retained earnings for the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
Number of shares eligible for dividends : common stock	243,215,844	243,196,468
Dividend rate	48.20%	40.00%
Dividend amount (in millions of Korean won)	₩ 586,150	₩ 486,393
Dividend payout ratio (Dividends / Net income)	50.02%	94.16%
Dividend yield ratio (Dividends per share / Market price)	5.21%	5.12%

29. Supplemental Cash Flows Information

Significant transactions not affecting cash flows for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010	2009
Reclassification of the current portion of bonds payable	₩ 1,920,773	₩ 1,243,005
Reclassification of construction-in-progress to property and equipment	2,361,307	2,054,375
Acquisition of equity-method investments through issuance of exchangeable bond	-	319,160
Reissuance of treasury stock in exchange of exchangeable bonds	-	451,157
Increase in capital due to merger with KTF	-	1,553,491

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30. Related Party Transactions

The list of subsidiaries of the Company as of December 31, 2010, is as follows:

Type of control	Subsidiaries
Direct control	KT Hitel, KT Submarine Co., KT Networks Corporation, KT Powertel, KT Linkus Co., Telecop Service Co., KT Rental, KT Capital, Sidus FNH Co., Ltd., KTDS, Nasmedia, Inc., KT Edui Co., Ltd. (formerly "JungBoPremiumEdu Co., Ltd."), Sofnics Inc., KT Tech, KT M Hows, KT M&S, KT Msusic, KT Innotz Inc., KT Estate Inc., KT Internal Venture Fund No.2, Sidus FNH Benex Cinema Investment Fund(formerly "Sidus FNH Benex Cinema Investment Fund"), KT New Business Fund No.1, KT Capital Media Contents Fund No.2, Gyeonggi-KT Green Growth Fund, KT Strategic Investment Fund No.1, Korea Telecom America, Inc., New Telephone Company, Korea Telecom Japan Co., Ltd., Korea Telecom China Co., Ltd., KTSC Investment Management B.V., PT. KT Indonesia
Indirect control through KT Hitel	KT Commerce Inc.
Indirect control through KT Capital	Vanguard Private Equity Fund, KTC Media Contents Fund 1, KT-LIG ACE Private Equity Fund Co., Ltd.
Indirect control through KT Rental	KTR
Indirect control through KTSC Investment Management B.V.	East Telecom and Super iMax
Indirect control through NTSC	Helios TV and Novaya Svyaz

Significant transactions with related parties for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	Operating Revenues		Operating Expenses	
Subsidiaries	₩	819,519	₩	1,330,792
Equity-method investees		164,778		905,504
2010 Total	₩	984,297	₩	2,236,296
2009 Total	₩	716,062	₩	1,886,330

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Significant balances with related parties as of December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	Receivables		Payables	
Subsidiaries	₩	36,293	₩	512,940
Equity-method investees		15,530		142,015
2010 Total	₩	51,823	₩	654,955
2009 Total	₩	74,260	₩	542,628

Key management compensation for the years ended December 31, 2010 and 2009, consists of:

<i>(in millions of Korean won)</i>	2010		2009		Description
Benefits	₩	33,744	₩	17,068	Salaries, bonuses, other allowances, retirement benefits, medical benefits and others
Compensation expenses		6,794		1,052	Compensation expenses associated to stock options, stock grants
Total	₩	40,538	₩	18,120	

Key management consists of vice presidents and higher positions, who have the authority and responsibility for planning, operation and control and are in charge of a business unit or division unit, and non-permanent directors.

31. Segment Information

The Company's operating segments are as follows:

Details	Business service
Personal Customer Group ("Personal")	Personal customers using PCS and WiBro
Home Customer Group ("Home")	Home customers using telephone, internet, data and others
Enterprise Customer Group ("Enterprise")	Enterprise customers using telephone, internet, data and others
Others	Global, real estate, and others

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Details of each segment for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010					
	Personal		Home/Enterprise/Others		Total	
Operating revenues	₩	10,387,800	₩	9,845,716	₩	20,233,516
Operating expenses		8,909,956		9,270,263		18,180,219
Operating income		1,477,844		575,453		2,053,297
Depreciation and amortization		928,600		1,985,755		2,914,355
Property and equipment and Intangible assets		4,700,790		10,385,029		15,085,819

<i>(in millions of Korean won)</i>	2009 ¹					
	Personal		Home/Enterprise/Others		Total	
Operating revenues	₩	5,797,405	₩	5,446,632	₩	11,244,037
Operating expenses		5,141,810		6,074,058		11,215,868
Operating income		655,595		(627,425)		28,170
Depreciation and amortization		581,691		1,264,431		1,846,122
Property and equipment and Intangible assets		4,757,330		10,653,089		15,410,419

¹ The table sets forth the operating segment information for the period from June 1, 2009, the date of the merger with KTF.

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32. Interim Results

Operating results for the three-month periods ended December 31, 2010 and 2009, are as follows:

<i>(In millions of Korean won, except per share amounts)</i>		2010		2009
Operating revenues	₩	5,191,439	₩	4,747,644
Operating income(loss)		304,743		(549,500)
Net income(loss)		105,090		(430,503)
Basic earnings(losses) per share <i>(in Korean won)</i>		1,441		(1,821)

33. Subsequent Events

Subsequent to December 31, 2010, the Company has issued the unsecured public bonds, as follows:

	Issue Date	Par Value	Interest Rate	Maturity Date	Repayment Method
USD denominated unsecured public bond (178-1 st) with floating rate	2011.1.11	USD 100,000	Libor(3M) + 1.00%	2013.1.18	Lump sum repayment at maturity
USD denominated unsecured public bond (178-2 nd) with floating rate	2011.1.11	USD 100,000	Libor(3M) + 1.05%	2014.1.17	Lump sum repayment at maturity
JPY denominated foreign public bond	2011.1.20	JPY 35,000,000	1.58%	2013.1.25	Lump sum repayment at maturity

As approved by the Board of Directors on December 10, 2010, the Company acquired from Dutch Savings Holdings B.V. 5,600,000 shares of redeemable convertible preferred stock with voting rights and ₩246,400 million in bonds which are convertible into 5,600,000 common shares of Korea Digital Satellite Broadcasting Co., Ltd. Accordingly, the Company's ownership in Korea Digital Satellite Broadcasting Co., Ltd. has increased from 32.12% to 46.41% (53.05%, if the potential voting rights are considered).

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34. Merger with KTF

On January 20, 2009, the Company entered into a merger agreement with KTF, which was subsequently approved by the shareholders on March 27, 2009. On June 1, 2009, the Company, as the surviving company, merged with KTF.

The Company issued 0.7192335 share of KT common stock with a par value per share of ₩ 5,000 for one share of KTF. However, the Company did not issue any new common stock for the shares of KTF common stock held by the Company or for the treasury shares of KTF as of the date of the merger.

Details of merged companies:

	CEO	Business	Relationship
KT Corporation (KT)	Lee Suk Chae	Telephone service, new media business, telecommunication products sales and other	Parent
KT Freetel Co.,Ltd. (KTF)	Kwon Haing Min	Mobile telecommunication service and other	Subsidiary

Accounting treatment

As this is a merger between parent and subsidiary, the Company accounted for the merger using the carrying amounts in its consolidated financial statements and accordingly, the excess of merger consideration given over the carrying amount of net assets acquired was recognized as capital adjustment after offsetting capital surplus, if any, from the similar type of transaction.

(In millions of Korean won)

Succession of assets and liabilities of KTF :		
Assets (including goodwill of ₩140,956)	₩	8,389,522
Liabilities		<u>(3,940,069)</u>
Net asset value	₩	<u>4,449,453</u>

See Report of Independent Auditors.

KT Corporation
Notes to Non-Consolidated Financial Statements
December 31, 2010 and 2009

Decrease in equity-method investments	₩	2,895,962
Changes in equity :		
Increase in common stock		3,501
Decrease in treasury stock		2,436,659
Decrease in gain on disposal of treasury stock		(375)
Decrease in accumulated other comprehensive income		(6,932)
Decrease in capital adjustments		(879,362)
		<u>1,553,491</u>
	₩	<u>4,449,453</u>
Offsetting of receivables and payables between the Company and KTF	₩	<u>331,917</u>

Goodwill

Changes in goodwill for the year ended December 31, 2010, are as follows:

(in millions of Korean won)

January 1, 2009 ¹	₩	195,170
Amortization ¹		<u>(54,214)</u>
May 31, 2009 ¹	₩	<u>140,956</u>
June 1, 2009 (the date of the merger)	₩	140,956
Amortization		<u>(75,899)</u>
December 31, 2009		65,057
Amortization		<u>(65,057)</u>
December 31, 2010	₩	<u>-</u>

¹ Represents investment difference and was reflected in the equity-method investment in KTF.

Goodwill is amortized on a straight-line basis over ten years and, as of June 30, 2010, the goodwill had been fully amortized.

KT Corporation
Notes to Non-Consolidated Financial Statements
December 31, 2010 and 2009

Deferred income tax assets

The deferred income tax assets transferred from KTF due to the merger on June 1, 2009, were as follows:

(in millions of Korean won)

Allowance for doubtful accounts	₩	34,475
Accrued expenses		30,618
Accrued provisions		39,478
Property and equipment, others		(13,061)
Other		18,506
Tax credit carryforwards		93,055
		<hr/>
Total	₩	203,071

Financial statements of the merged companies

Statements of financial position

<i>(in millions of Korean won)</i>	KT		KTF	
	2009.6.1	2008.12.31	2009.6.1	2008.12.31
Current assets	₩ 4,926,684	₩ 3,778,105	₩ 2,716,833	₩ 2,199,857
Investment assets	3,846,019	3,517,906	270,019	396,903
Property and equipment	9,932,337	10,428,674	3,919,107	4,165,339
Intangible assets	344,330	397,046	783,254	780,242
Other non-current assets	503,787	563,191	559,353	513,781
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	₩ 19,553,157	₩ 18,684,922	₩ 8,248,566	₩ 8,056,122
	<hr/>	<hr/>	<hr/>	<hr/>
Current liabilities	₩ 2,871,186	₩ 2,585,875	₩ 2,657,350	₩ 2,031,871
Non-current liabilities	8,274,862	7,267,158	1,282,719	1,658,402
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	11,146,048	9,853,033	3,940,069	3,690,273
	<hr/>	<hr/>	<hr/>	<hr/>
Total equity	8,407,109	8,831,889	4,308,497	4,365,849
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and equity	₩ 19,553,157	₩ 18,684,922	₩ 8,248,566	₩ 8,056,122

See Report of Independent Auditors.

KT Corporation
Notes to Non-Consolidated Financial Statements
December 31, 2010 and 2009

Statements of income

	KT		KTF	
	For the period from Jan. 1, 2009 to the date of the merger	For the year ended Dec. 31, 2008	For the period from Jan. 1, 2009 to the date of the merger	For the year ended Dec. 31, 2008
<i>(in millions of Korean won)</i>				
Operating revenues	₩ 4,662,137	₩ 11,784,835	₩ 3,516,358	₩ 8,346,220
Operating expenses	4,078,756	10,671,446	3,131,947	7,891,839
Non-operating revenues	329,587	855,289	43,656	201,470
Non-operating expenses	372,047	1,408,633	152,858	469,496
Income tax expense	105,765	110,235	45,833	21,776
Net income	₩ 435,156	₩ 449,810	₩ 229,376	₩ 164,579

35. Adoption of K-IFRS

The Company plans to prepare its financial statements in accordance with K-IFRS starting from the year ending December 31, 2011. Since “the Roadmap to K-IFRS Adoption” has been announced in March 2007, the Company organized a task force team, conducted training, and analyzed the impact of the adoption of K-IFRS. The Company is also analyzing the key differences and potential impact on financial statements, while formulating the proper accounting policies.

Significant differences between the accounting policies chosen by the Company under K-IFRS and under current generally accepted accounting principle in the Republic of Korea (K-GAAP) are as follows:

		K-IFRS	K-GAAP
First time adoption of K-IFRS	Business combination	Not applying IFRS 3 retrospectively to a past business combination	Not available
	Fair value or revaluation as deemed cost	Recognition of fair value in its opening IFRS statement of financial position as deemed cost for certain items of property and equipment	Not available

See Report of Independent Auditors.

KT Corporation
Notes to Non-Consolidated Financial Statements
December 31, 2010 and 2009

		K-IFRS	K-GAAP
	Investments in subsidiaries, jointly controlled entities and associates	Carrying amount of investments in subsidiaries, jointly controlled entities and associates under previous GAAP for separate financial statements are recorded at cost on the date of transition (January 1, 2010).	Not available
	Borrowing costs	Capitalization of borrowing costs for qualifying assets acquired after the date of transition (January 1, 2010).	Not available
Initiation fee revenue		The amount of initiation fee is deferred and recognized as a part of service revenue over the period during which the service is performed.	The total amount of initiation fee is recognized as revenue when the fee is paid.
Real estate revenue		According to revenue recognition arising from the sale of goods, real estate revenue is recognized at the time of the transfer of the legal title.	Considered as a construction contract, the real estate revenue is recognized on a percentage of completion basis.
Customer loyalty programmes		The sales transaction in which they are granted is allocated to the separately identifiable component. The revenue is deferred and recognized over the period.	The amount of future obligation is recognized as an expense and liability provision at the time of the sale transaction.
Investments in subsidiaries, jointly controlled entities and associates in respect of separate financial statements.		Applying the cost method.	Applying the equity method.

See Report of Independent Auditors.

KT Corporation
Notes to Non-Consolidated Financial Statements
December 31, 2010 and 2009

	K-IFRS	K-GAAP
Change in scope of consolidated financial statements	Regardless of size of each subsidiary, consolidated financial statements shall include all entities controlled by the parent.	According to “the Act on External Audit of Stock Companies”, Section 1 Paragraph 3, Item 2, the consolidated financial statements shall include all subsidiaries except for the entities of which the total assets as of prior year end were less than ₩10 billion.
Capitalization of borrowing costs	An entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, acquired after the date of transition, as part of the cost of that asset.	All borrowing costs are recognized as expense.
Financial assets and liabilities (Financial instruments)	Financial assets categorized as loans and receivables are measured at their fair value and the difference between the fair value and nominal value is amortized using effective interest method. Other financial liabilities are measured at amortized cost using effective interest method.	Receivables and payables resulting from long-term installment payment transactions, long-term cash loans or other similar borrowings, are valued at their present values, discounted at an appropriate discount rate when the difference between the nominal value and present value is material.
Employee benefits	For the employees who elect the defined benefit plan, the defined benefit obligations are measured using actuarial method. Other long-term employee benefits are recognized using actuarial method.	Accrued employee benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the date of statement of financial position. Other long-term employee benefits are recognized when obligations to pay the benefits are determined.

See Report of Independent Auditors.

KT Corporation
Notes to Non-Consolidated Financial Statements
December 31, 2010 and 2009

	K-IFRS	K-GAAP
Goodwill	Goodwill is not amortized, but impairment test is performed annually at the year-end of reporting period, and a bargain purchase is recognized in profit or loss on the acquisition date.	Goodwill recognized at the business combination is amortized using the straight-line method. Negative goodwill (a gain from a bargain purchase) is reversed as income when actual loss occurs, or during the period of weighted average useful life of amortizable assets on the straight-line method basis.
Reclassification of investment property	A property held to earn rentals or for capital gain or both is classified as investment property.	A property held to earn rentals is classified as property and equipment.
Membership	Membership is classified as intangible asset with indefinite useful life or financial asset.	Membership is classified as long-term deposit under other non-current assets.
Deferred tax	Deferred tax assets or liabilities on investments in subsidiaries and associates are recognized by reflecting the tax consequences of each temporary difference. An entity shall classify all deferred tax assets and liabilities as non-current.	Deferred tax assets or liabilities on investments in subsidiaries and associates are recognized by the net amount of temporary differences from each investment. An entity classifies deferred tax assets and liabilities as current on non-current according to the period in which the temporary differences are reversed.

36. Approval of Financial Statements

The December 31, 2010 non-consolidated financial statements were approved by the Board of Directors on February 10, 2011.

See Report of Independent Auditors.

Report of Independent Accountants'
Review of Internal Accounting Control System

To the President of
KT Corporation

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of KT Corporation (the "Company") as of December 31, 2010. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on the assessment of the IACS, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2010, in all material respects, in accordance with the IACS framework."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. 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 causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2010, and we did not review management's assessment of its IACS subsequent to December 31, 2010. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
February 24, 2011

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

To the Board of Directors and Audit Committee of KT Corporation

I, as the Internal Accounting Control Officer ("IACO") of KT Corporation ("the Company"), assessed the status of the design and operation of the Company's IACS for the year ended December 31, 2010.

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.

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, 2010, in all material respects, in accordance with the IACS Framework.

February 10, 2011

Internal Accounting Control Officer Yeon-Hak Kim

Yeon-Hak Kim

Chief Executive Officer Suk-Chae Lee

Suk-Chae Lee

**EXHIBIT 99-2 : CONSOLIDATED FINANCIAL STATEMENTS FOR THE
TWELVE MONTHS ENDED DECEMBER 31, 2010 AND 2009 AND
INDEPENDENT AUDITORS' REPORT**

KT Corporation and Subsidiaries

Consolidated Financial Statements

December 31, 2010

KT Corporation and Subsidiaries
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December 31, 2010

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Report of Independent Auditors

To the Board of Directors and Shareholders of
KT Corporation

We have audited the accompanying consolidated statement of financial position of KT Corporation and subsidiaries (collectively the "Company") as of December 31, 2010, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, expressed in Korean won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Company as of and for the year ended December 31, 2009, presented herein for comparative purposes, were audited by other auditors whose report dated March 16, 2010, expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010, and the results of its operations, changes in shareholders' equity and cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Samil PricewaterhouseCoopers

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

Samuel Price waterhouse coopers

Seoul, Korea
March 31, 2011

This report is effective as of March 31, 2011, 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 consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

KT Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2010 and 2009

(in millions of Korean won)

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents, net (Notes 4, 19 and 31)	₩ 1,193,348	₩ 1,538,122
Short-term investment assets (Notes 4, 7 and 19)	166,200	443,934
Trade accounts receivable, net (Notes 19 and 32)	3,843,287	3,621,844
Short-term loans receivable, net (Notes 6, 19 and 32)	755,016	484,926
Current finance lease receivables, net (Notes 11, 17 and 32)	240,414	203,406
Other receivables, net (Note 19)	408,392	281,609
Accrued revenues	18,393	22,506
Advance payments	125,025	91,737
Prepaid expenses	145,317	119,065
Income taxes receivable	5,796	27,037
Current derivative instruments assets (Note 13)	151,243	288
Current deferred income tax assets (Note 26)	363,492	437,525
Inventories, net (Notes 5 and 11)	655,831	699,402
Other current assets (Note 19)	877	448
Total current assets	8,072,631	7,971,849
Long-term financial instruments (Note 4)	3,054	3,037
Available-for-sale securities (Note 7)	199,515	117,290
Equity-method investments (Note 8)	429,148	287,989
Held-to-maturity securities (Note 7)	66	65
Long-term loans receivable to employees, net	71,982	62,758
Other investment assets	79,426	90,231
Property and equipment, net (Notes 9, 11, 12, 17 and 33)	15,227,858	14,774,560
Intangible assets, net (Notes 10, 33 and 36)	1,232,866	1,279,500
Long-term trade accounts and notes receivable, net (Note 32)	800,365	402,259
Long-term loans receivable, net (Note 6)	415,087	414,981
Non-current finance lease receivables, net (Notes 11, 17, and 32)	453,848	311,795
Leasehold rights and deposits	321,179	353,992
Long-term other receivables, net	40	11,596
Non-current derivative instruments assets (Note 13)	97,166	295,058
Non-current deferred income tax assets (Note 26)	185,724	113,266
Exclusive memberships	101,574	103,522
Other non-current assets	21,930	26,569
Total non-current assets	19,640,828	18,648,468
Total assets	₩ 27,713,459	₩ 26,620,317

KT Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2010 and 2009

(in millions of Korean won)

	2010	2009
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable (Notes 19 and 32)	₩ 1,530,981	₩ 1,484,943
Short-term borrowings	468,710	367,505
Other accounts payable (Notes 17, 19 and 32)	1,620,470	2,438,674
Advances received	153,599	152,654
Withholdings (Note 19)	176,299	98,099
Accrued expenses (Notes 18 and 19)	553,583	483,366
Income taxes payable	287,843	12,942
Current portion of bond and long-term borrowings, net (Notes 14 and 19)	2,434,985	1,689,546
Unearned revenue	14,665	9,251
Deposits received (Notes 19 and 32)	95,196	158,799
Current portion of accrued provisions (Note 16)	89,181	39,841
Current derivative instruments liabilities (Note 13)	228	5,124
Current deferred income tax liabilities (Note 26)	1,817	1
Other current liabilities	2,073	478
Total current liabilities	7,429,630	6,941,223
Bonds payable, net (Notes 14 and 19)	6,745,673	7,337,399
Long-term borrowings, net (Notes 14 and 19)	473,014	198,273
Provisions for severance benefits, net (Note 15)	360,028	337,524
Non-current accrued provisions (Note 16)	114,453	103,576
Refundable deposits for telephone installation	615,809	696,396
Long-term deposits received	255,807	101,924
Non-current derivative instruments liabilities (Note 13)	20,243	6,155
Long-term other accounts payable, net (Notes 17 and 32)	171,596	164,696
Long-term trade accounts payable, net (Note 32)	25,521	14,603
Non-current deferred income tax liabilities (Note 26)	2,657	1,065
Other non-current liabilities	3,356	50,044
Total non-current liabilities	8,788,157	9,011,655
Total liabilities	16,217,787	15,952,878

Commitments and Contingencies(Note 18)

KT Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2010 and 2009

<i>(in millions of Korean won)</i>	2010	2009
Capital stock		
Common stock (Notes 20 and 36)	₩ 1,564,499	₩ 1,564,499
Capital surplus		
Paid-in capital in excess of par value	1,440,258	1,440,258
Other capital surplus	9,519	8,311
Capital adjustments		
Treasury stock (Note 21)	(955,083)	(956,159)
Loss on disposal of treasury stock	(295)	(890,650)
Stock options (Note 22)	875	1,500
Other capital adjustments (Notes 22 and 36)	(308,031)	(320,419)
Accumulated other comprehensive income and expense (Note 28)		
Gain on translation of foreign operations	12,989	5,571
Loss on translation of foreign operations	(39,199)	(18,763)
Unrealized gain on valuation of available-for-sale securities	7,927	5,310
Unrealized loss on valuation of available-for-sale securities	(801)	(83)
Accumulated comprehensive income of equity-method investees (Note 8)	785	438
Accumulated comprehensive expense of equity-method investees (Note 8)	(5,916)	(13,736)
Gain on valuation of derivatives for cash flow hedge (Note 13)	4,699	11,468
Loss on valuation of derivatives for cash flow hedge (Note 13)	(63,131)	(34,747)
Retained earnings (Note 23)		
Legal reserve	780,499	780,499
Voluntary reserves	4,651,362	4,758,013
Unappropriated retained earnings	3,932,870	4,035,257
Minority interest in consolidated subsidiaries	461,846	290,872
Total shareholders' equity	11,495,672	10,667,439
Total liabilities and shareholders' equity	₩ 27,713,459	₩ 26,620,317

The accompanying notes are an integral part of these consolidated financial statements.

See Report of Independent Auditors.

KT Corporation and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2010 and 2009

(in millions of Korean won, except per share amounts)

	2010	2009
Operating revenues (Notes 24, 32 and 33)	₩ 21,331,313	₩ 19,643,812
Operating expenses (Notes 25 and 32)	<u>19,156,231</u>	<u>18,673,265</u>
Operating income (Note 33)	<u>2,175,082</u>	<u>970,547</u>
Non-operating income		
Interest income	143,165	197,367
Foreign currency transaction gain	23,051	42,125
Foreign currency translation gain (Note 19)	65,793	240,925
Gain on valuation of equity-method investments (Note 8)	37,597	19,672
Gain on disposal of property and equipment	13,653	5,531
Reversal of accrued provisions	17,215	4,988
Gain on settlement of derivatives	744	2,249
Gain on valuation of derivatives (Note 13)	39,920	17,643
Other non-operating revenues	<u>181,679</u>	<u>276,991</u>
	<u>522,817</u>	<u>807,491</u>
Non-operating expenses		
Interest expense	529,364	505,496
Other bad debts expense	9,261	46,872
Foreign currency transaction loss	25,968	46,171
Foreign currency translation loss (Note 19)	31,871	17,893
Loss on valuation of equity-method investments (Note 8)	11,067	33,300
Donations	81,096	39,320
Loss on disposal of property and equipment	178,963	124,689
Loss on impairment of property and equipment	9,297	1,236
Loss on disposal of intangible assets	19,620	4,247
Loss on settlement of derivatives	2,156	1,031
Loss on valuation of derivatives (Note 13)	47,721	191,268
Other non-operating expenses	<u>189,742</u>	<u>47,240</u>
	<u>1,136,126</u>	<u>1,058,763</u>
Income from continuing operations before income taxes	<u>1,561,773</u>	<u>719,275</u>
Income tax expense on continuing operations (Note 26)	<u>371,843</u>	<u>107,763</u>
Income from continuing operations	<u>1,189,930</u>	<u>611,512</u>
Income(loss) from discontinued operations (Note 27)	<u>2,612</u>	<u>(1,817)</u>
Net income	<u>₩ 1,192,542</u>	<u>₩ 609,695</u>
Controlling interest net income	₩ 1,168,005	₩ 494,846
Minority interest net income	₩ 24,537	₩ 114,849
Earnings per share attributable to controlling interest (Note 29)		
Basic income per share from continuing operations (in won)	₩ 4,797	₩ 2,225
Basic net income per share (in won)	₩ 4,803	₩ 2,254
Diluted income per share from continuing operations (in won)	₩ 4,797	₩ 2,199
Diluted net income per share (in won)	₩ 4,802	₩ 2,227

The accompanying notes are an integral part of these consolidated financial statements.

See Report of Independent Auditors.

KT Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2010 and 2009

(in millions of Korean won)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income and expense	Retained earnings	Minority interests	Total
Balances as of January 1, 2009 (as reported)	₩ 1,560,998	₩ 1,440,633	₩ (3,994,736)	₩ 10,879	₩ 9,814,115	₩ 2,256,009	₩ 11,087,898
Dividends	-	-	-	-	(226,280)	(3,080)	(229,360)
Retained earnings after appropriation	-	-	-	-	9,587,835	2,252,929	10,858,538
Issuance of common stock	3,501	-	-	-	-	-	3,501
Net income for the year	-	-	-	-	494,846	114,849	609,695
Consideration for exchange rights	-	18,442	-	-	-	-	18,442
Exercise of exchange rights of exchangeable bonds	-	(18,442)	451,157	-	-	-	432,715
Acquisition of treasury stock	-	-	(528,144)	-	-	-	(528,144)
Disposal of treasury stock	-	-	2,436,797	-	-	-	2,436,797
Retirement of treasury stock	-	-	508,912	-	(508,912)	-	-
Loss on disposal of treasury stock	-	(375)	(890,650)	-	-	-	(891,025)
Stock options	-	8,311	(7,380)	-	-	-	931
Other share-based payments	-	-	700	-	-	-	700
Other capital adjustments	-	-	1,059	-	-	(811)	248
Other capital adjustments by merger	-	-	(89,375)	-	-	(1,553,491)	(1,642,866)
Acquisition of subsidiaries' stock	-	-	(24,105)	-	-	(295,055)	(319,160)
Increase in subsidiaries' capital stock	-	-	(697)	-	-	7,199	6,502
Acquisition of subsidiaries' treasury stock	-	-	(29,266)	-	-	(251,048)	(280,314)
Changes in consolidated entities	-	-	-	-	-	26,682	26,682
Gain on translation of foreign operations	-	-	-	(4,891)	-	(3,751)	(8,642)
Loss on translation of foreign operations	-	-	-	(14,497)	-	(4,159)	(18,656)
Unrealized gain on valuation of available-for-sale securities	-	-	-	497	-	(610)	(113)
Unrealized loss on valuation of available-for-sale securities	-	-	-	4,262	-	3,425	7,687
Changes in equity-method investees with accumulated comprehensive income	-	-	-	(9,931)	-	(273)	(10,204)
Changes in equity-method investees with accumulated comprehensive expense	-	-	-	(10,155)	-	17	(10,138)
Gain on valuation of derivatives for cash flow hedge	-	-	-	331	-	155	486
Loss on valuation of derivatives for cash flow hedge	-	-	-	(21,037)	-	(5,186)	(26,223)
Balances as of December 31, 2009	<u>₩ 1,564,499</u>	<u>₩ 1,448,569</u>	<u>₩ (2,165,728)</u>	<u>₩ (44,542)</u>	<u>₩ 9,573,769</u>	<u>₩ 290,872</u>	<u>₩ 10,667,439</u>

KT Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2010 and 2009

(in millions of Korean won)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income and expense	Retained earnings	Minority interests	Total
Balances as of January 1, 2010 (as reported)	₩ 1,564,499	₩ 1,448,569	₩ (2,165,728)	₩ (44,542)	₩ 9,573,769	₩ 290,872	₩ 10,667,439
Dividends	-	-	-	-	(486,393)	(7,708)	(494,101)
Retained earnings after appropriations	-	-	-	-	9,087,376	283,164	10,173,338
Net income for the year	-	-	-	-	1,168,005	24,537	1,192,542
Appropriations of loss on disposal of treasury stock	-	-	890,650	-	(890,650)	-	-
Acquisition of treasury stock	-	-	(349)	-	-	-	(349)
Disposal of treasury stock	-	-	(295)	-	-	-	(295)
Stock options	-	140	(183)	-	-	-	(43)
Other share-based payments	-	1,068	5,658	-	-	-	6,726
Acquisition of subsidiaries' stock and changes in consolidated entities	-	-	5,879	-	-	158,750	164,629
Changes in the interest in the subsidiaries	-	-	809	-	-	(345)	464
Other capital adjustments	-	-	1,025	-	-	(872)	153
Gain on translation of foreign operations	-	-	-	7,418	-	(533)	6,885
Loss on translation of foreign operations	-	-	-	(20,436)	-	(2,762)	(23,198)
Unrealized gain on valuation of available-for-sale securities	-	-	-	2,617	-	199	2,816
Unrealized loss on valuation of available-for-sale securities	-	-	-	(718)	-	(30)	(748)
Changes in equity-method investees with accumulated comprehensive income	-	-	-	347	-	(262)	85
Changes in equity-method investees with accumulated comprehensive expense	-	-	-	7,820	-	-	7,820
Gain on valuation of derivatives for cash flow hedge	-	-	-	(6,769)	-	-	(6,769)
Loss on valuation of derivatives for cash flow hedge	-	-	-	(28,384)	-	-	(28,384)
Balances as of December 31, 2010	<u>₩ 1,564,499</u>	<u>₩ 1,449,777</u>	<u>₩ (1,262,534)</u>	<u>₩ (82,647)</u>	<u>₩ 9,364,731</u>	<u>₩ 461,846</u>	<u>₩ 11,495,672</u>

The accompanying notes are an integral part of these consolidated financial statements.
See Report of Independent Auditors.

KT Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009

(in millions of Korean won)

	2010	2009
Cash flows from operating activities		
Net income	₩ 1,192,542	₩ 609,695
Adjustments to reconcile net income		
to net cash provided by operating activities		
Share-based payments	6,969	1,049
Provision for severance benefits	248,053	1,128,370
Depreciation	2,895,499	2,935,448
Amortization of intangible assets	389,960	426,018
Provision for doubtful accounts	164,799	104,977
Interest expense	34,722	25,994
Interest income	(46,891)	(22,126)
Other bad debts expense	9,261	46,872
Gain on foreign currency translation, net	(33,346)	(224,104)
Loss(Gain) on valuation of equity-method investments, net	(27,037)	13,628
Gain on disposal of equity-method investments, net	(1,318)	(62,076)
Loss on impairment of available-for-sale securities	2,792	10,102
Gain on disposal of available-for-sale securities	(257)	(9,496)
Loss on disposal of property and equipment, net	165,310	119,158
Loss on impairment of property and equipment	9,297	1,236
Loss on disposal of intangible assets	19,620	4,247
Loss on impairment of intangible assets	3,443	7,742
Loss on valuation of derivatives, net	7,801	173,625
Others	132,529	(8,635)
	<u>3,981,206</u>	<u>4,672,029</u>

KT Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009

<i>(in millions of Korean won)</i>	2010	2009
Changes in operating assets and liabilities		
Decrease(increase) in trade accounts and notes receivable	₩ 69,456	₩ (465,422)
Short-term loans granted	(278,531)	(180,572)
Decrease in current finance lease receivables	13,955	5,834
Increase in other accounts receivable	(90,253)	(120,762)
Decrease(increase) in accrued revenue	5,722	(1,201)
Increase in advance payments	(51,579)	(27,294)
Increase in prepaid expenses	(4,677)	(19,928)
Decrease(increase) in income taxes receivable	25,984	(25,538)
Decrease(increase) in guarantee deposits	(532)	1,049
Decrease(increase) in derivative instruments assets	19,148	(30,838)
Decrease(increase) in other current assets	(354)	275
Decrease(increase) in inventories	36,850	(274,851)
Dividend received	11,306	1,332
Increase in long-term trade accounts and notes receivable	(781,407)	(387,630)
Long-term loans granted	-	(147,602)
Increase in non-current finance lease receivables	(169,991)	(16,555)
Decrease(increase) in leasehold rights and deposits	37,133	(2,484)
Decrease(increase) in deferred income tax assets and liabilities	11,691	(68,054)
Decrease(increase) in long-term other accounts receivable	9,748	(890)
Decrease(increase) in other non-current assets	44,099	(8,827)
Increase in trade accounts payable	21,213	645,925
Increase(decrease) in other accounts payable	(286,700)	869,594
Increase(decrease) in advances received	(11,572)	52,277
Increase(decrease) in withholdings	76,042	(129,398)
Increase(decrease) in accrued expenses	75,844	(42,864)
Increase(decrease) in income taxes payable	275,554	(107,361)
Increase in unearned revenue	5,220	81
Increase in other current liabilities	716	376
Increase in deposits received	18,932	39,232
Increase(decrease) in derivative instruments liabilities	(11,490)	35,423
Payment of severance benefits	(1,249,246)	(1,345,331)
Decrease in deposits for severance benefits	278,332	48,917
Increase(decrease) in contribution to National Pension Fund	(193)	135
Decrease in accrued provisions	(49,051)	(11,257)
Decrease in refundable deposits for telephone installation	(80,585)	(85,129)
Increase in long-term accounts payable	2,902	17,494
Increase(decrease) in long-term other payables	105,594	(99,864)
Decrease in other non-current liabilities	(8,496)	(1,151)
	<u>(1,929,216)</u>	<u>(1,882,859)</u>
Net cash provided by operating activities	<u>3,244,532</u>	<u>3,398,865</u>

KT Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009

(in millions of Korean won)

	2010	2009
Cash flows from investing activities		
Decrease in short-term investment assets	668,313	657,223
Disposal of available-for-sale securities	12,338	12,609
Disposal in equity-method investments	25,021	111,901
Decrease in long-term financial instruments	10,481	13
Collection of held-to-maturity securities	16	14,093
Collection of long-term loans	3	89,603
Disposal of property and equipment	27,159	69,947
Increase in customers' contribution to construction costs	5,522	16,440
Disposal of intangible assets	4,253	1,326
Disposal of other investment assets	1,378	189
Increase in short-term investment assets	(320,100)	(685,809)
Acquisition of available-for-sale securities	(88,981)	(52,962)
Acquisition of held-to-maturity securities	-	(5)
Acquisition of equity-method investments	(135,539)	(38,191)
Increase in long-term financial instruments	(9)	(3,006)
Long-term loans granted	(50,234)	(71,810)
Acquisition of property and equipment	(3,239,396)	(2,774,426)
Acquisition of intangible assets	(352,033)	(215,115)
Acquisition of other investment assets	(4,182)	(3,782)
Net cash used in investing activities	<u>(3,435,990)</u>	<u>(2,871,762)</u>
Cash flows from financing activities		
Increase in short-term borrowings, net	211,012	99,395
Issuance of bonds	1,606,224	1,421,091
Increase in long-term borrowings	429,082	77,539
Issuance of subsidiaries' common stock	51,705	-
Inflows from capital transactions of consolidated entities	9,576	4,124
Decrease in capital lease liabilities	(37,648)	(48,723)
Payment of current portion of bond and long-term borrowings	(1,894,942)	(1,445,857)
Payment of dividends	(502,185)	(229,360)
Acquisition of treasury stock	(300)	(528,143)
Reduction of subsidiaries' common stock	(1,504)	-
Outflows from capital transactions of consolidated entities	-	(280,512)
Net cash used in financing activities	<u>(128,980)</u>	<u>(930,446)</u>
Effect of changes in consolidated entities	<u>(21,879)</u>	<u>59,714</u>
Effect of exchange rate on cash	<u>(2,457)</u>	<u>(9,167)</u>
Net decrease in cash and cash equivalents	<u>(344,774)</u>	<u>(352,796)</u>
Cash and cash equivalents (Note 31)		
Beginning of the year	<u>1,538,122</u>	<u>1,890,918</u>
End of the year	<u>₩ 1,193,348</u>	<u>₩ 1,538,122</u>

The accompanying notes are an integral part of these consolidated financial statements.

See Report of Independent Auditors.

KT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

1. General information

KT Corporation ("the Controlling Company") commenced operations on January 1, 1982, when it spun off from the Korea Communications Commission (formerly the Korean Ministry of Information and Communications) to provide telephone services and to engage in the development of advanced communications services under the Act of Telecommunications of Korea.

On October 1, 1997, upon the announcement of the Government-Investment Enterprises Management Basic Act and the Privatization Law, the Controlling Company became a government-funded institution under the Commercial Code of Korea.

On December 23, 1998, the Controlling Company's shares were listed on the Korea Exchange.

On May 29, 1999, the Controlling Company issued 24,282,195 additional shares and issued American Depositary Shares (ADS), representing new shares and government-owned shares, at the New York Stock Exchange and the London Stock Exchange. On July 2, 2001, the ADS representing 55,502,161 government-shares were issued.

In 2002, the Controlling Company acquired 60,294,575 government-owned shares in accordance with the Korean government's privatization plan. As of December 31, 2010, the Korean government did not own any share in the Controlling Company.

On June 1, 2009, the Controlling Company, as the surviving entity, merged with KT Freetel Co., Ltd. to have competitive advantages in the global trends of convergence between fixed and mobile communication.

The Controlling Company's shares as of December 31, 2010 are owned as follows:

	Number of shares	Percentage of ownership(%)
National Pension Service	21,557,950	8.26%
NTTDoCoMo, Inc.	14,257,813	5.46%
Employee Stock Ownership Association	4,069,147	1.56%
Others	203,330,934	77.87%
	<hr/> 243,215,844	<hr/> 93.15%
Treasury stock	17,895,964	6.85%
	<hr/> 261,111,808	<hr/> 100.00%

KT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

2. Consolidated Subsidiaries

The consolidated subsidiaries as of December 31, 2010, are as follows:

Subsidiary	Type of Business	Total issued shares	Shares owned by			Percentage of ownership (%)	Financial year end
			Parent	Subsidiaries	Total		
Domestic subsidiaries							
KT Powertel Co., Ltd. ("KTP")	Trunk radio system business	17,329,432	7,771,418	-	7,771,418	44.85	12.31
KT Networks Corporation ("KTN")	Group telephone management	2,000,000	2,000,000	-	2,000,000	100.00	12.31
KT Linkus Co., Ltd. ("KTL")	Public telephone maintenance	3,135,554	2,941,668	-	2,941,668	93.82	12.31
KT Submarine Co., Ltd. ("KTSC")	Submarine cable construction and maintenance	4,380,000	1,617,000	-	1,617,000	36.92	12.31
KT Capital Co., Ltd. ("KT Capital")	Financing service	27,394,245	20,200,000	7,194,245	27,394,245	100.00	12.31
KT Telecop Co., Ltd. ("KT Telecop")	Security service	6,491,353	5,765,911	84,544	5,850,455	90.13	12.31
KT Internal Venture Fund No.2	Investment fund	(*2)	(*2)	(*2)	(*2)	94.34	2.28
Sofnics, Inc.("Sofnics")	Software development and sales	225,000	120,000	15,000	135,000	60.00	12.31
KT Edui Co., Ltd. (formerly, JungBoPremiumEdu Co., Ltd.) ("KT Edui")	Online education business	768,000	540,000	-	540,000	70.31	12.31
KT New Business Fund No. 1	Investment fund	(*2)	(*2)	(*2)	(*2)	100.00	12.31
KT DataSystems Co., Ltd. ("KTDS")	System integration and maintenance	2,518,044	2,400,000	-	2,400,000	95.31	12.31
Gyeonggi-KT Green Growth Fund	Venture investment of Green Growth Business	(*2)	(*2)	(*2)	(*2)	56.45	12.31
KTC Media Contents Fund 1	New technology investment fund	(*2)	(*2)	(*2)	(*2)	81.82	4.30
KTC Media Contents Fund 2	New technology investment fund	(*2)	(*2)	(*2)	(*2)	85.71	12.31
KT Innotz Inc. ("KT Innotz")	Software development of mobile clouding computer and solution	1,000,000	600,000	-	600,000	60.00	12.31
Vanguard Private Equity Fund (*1)	Corporate restructuring	(*2)	(*2)	(*2)	(*2)	28.10	12.31
KT-LIG ACE Private Equity Fund (*1)	Investment fund	(*2)	(*2)	(*2)	(*2)	9.01	12.31
KTR Co., Ltd. ("KTR") (*3)	Rental service	4,974,608	-	4,974,608	4,974,608	58.00	12.31

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KT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

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KT Rental Co., Ltd. ("KT Rental") (*4)	Rental service	11,410,700	6,618,046	-	6,618,046	58.00	12.31
	Residential Building						
KT Estate Inc. ("KT Estate")	Development and Supply	1,600,000	1,600,000	-	1,600,000	100.00	12.31
KT Strategic Investment Fund No.1	Investment fund	(*2)	(*2)	(*2)	(*2)	100.00	12.31
KT Htel Co., Ltd. ("KTH")	Data communication	34,500,000	22,750,000	-	22,750,000	65.94	12.31
KT Commerce Inc. ("KTC")	B2C, B2B service	1,400,000	266,000	1,134,000	1,400,000	100.00	12.31
KT Tech, Inc. ("KT Tech")	PCS handset development	5,489,382	5,146,962	-	5,146,962	93.76	12.31
KT M Hows Co., Ltd. ("KTF M Hows")	Mobile marketing	1,000,000	510,000	-	510,000	51.00	12.31
KT M&S Co., Ltd. ("KT M&S")	PCS distribution	30,000,000	30,000,000	-	30,000,000	100.00	12.31
KT Music Corporation ("KT Music")	Online music production and distribution	29,766,863	14,494,258	-	14,494,258	48.69	12.31
Sidus FNH Corporation ("Sidus FNH")	Movie production	(*2)	(*2)	(*2)	(*2)	51.00	12.31
Sidus FNH Benex Cinema Investment Fund	Movie investment fund	(*2)	(*2)	(*2)	(*2)	43.33	12.31
Nasmedia, Inc. ("Nasmedia")	Online advertisement	3,535,029	1,767,516	-	1,767,516	50.00	12.31
Overseas subsidiaries							
Korea Telecom Japan Co., Ltd. ("KTJ", Japan)	Foreign telecommunication business	12,856	12,856	-	12,856	100.00	12.31
Korea Telecom China Co., Ltd. ("KTCC", China)	Foreign telecommunication business	1,244,600,000	1,244,600,000	-	1,244,600,000	100.00	12.31
Super iMax (Uzbekistan)	Wireless high speed internet business	(*2)	(*2)	(*2)	(*2)	100.00	12.31
	Fixed line						
East Telecom (Uzbekistan)	telecommunication business	(*2)	(*2)	(*2)	(*2)	85.00	12.31
New Telephone Company, Inc. ("NTC", Rusia)	Foreign telecommunication business	6,639,492	5,309,189	-	5,309,189	79.96	12.31
Helios-TV (Rusia)	Cable TV business	(*2)	(*2)	(*2)	(*2)	100.00	12.31
Novaya Svyaz	Internet business	(*2)	(*2)	(*2)	(*2)	100.00	12.31
KTSC Investment Management B.V. ("KTSC", Netherlands)	Management of investment in Super iMax and East Telecom	137,690	82,614	-	82,614	60.00	12.31
Korea Telecom America, Inc.	Foreign	6,000	6,000	-	6,000	100.00	12.31

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KT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

("KTAI", America)	telecommunication						
	business						
PT. KT Indonesia	Foreign						
	telecommunication	200,000	198,000	-	198,000	99.00	12.31
("KTI", Indonesia)	business						

¹ Even though the Controlling Company has less than 30% ownership in this subsidiary, this subsidiary was consolidated as the Controlling Company has significant control as a general partner in accordance with the Indirect Investment Asset Management Business Act.

² There are no issued shares since these are not corporations.

³ KTR Co., Ltd. was spun off from KT Rental Co., Ltd. on June 1, 2010.

⁴ KT Rental Co., Ltd. merged with the Rent-A-Car division that was spun off from Kumho Rent-A-Car Global Co., Ltd. on June 1, 2010.

The consolidated subsidiaries are determined in accordance with the Enforcement Decree of the Act on External Audit of Stock Companies and SKFAS No. 25, *Consolidated Financial Statements*.

Newly consolidated subsidiaries as of December 31, 2010, and subsidiaries consolidated as of December 31, 2009, but excluded as of December 31, 2010, are as follows:

Consolidated subsidiaries	Remarks
KT-LIG ACE Private Equity Fund	New investment made in 2010
KTR Co., Ltd.	Newly incorporated through spin-off
KT Estate Inc.	New investment made in 2010
KT Strategic Investment Fund No.1	New investment made in 2010
Novaya Svyaz	Total assets exceeded ₩10,000 million
Excluded subsidiary	Remarks
Doremi Media Co., Ltd	Disposed of

KT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

A summary of financial data of the major consolidated subsidiaries as of and for the year ended December 31, 2010, follows:

<i>(in millions of Korean won)</i>	Total assets	Total liabilities	Net assets	Sales	Net income (loss)
KT Powertel Co., Ltd.	₩ 165,838	₩ 68,805	₩ 97,033	₩ 127,491	₩ 13,592
KT Networks Corporation	171,875	120,503	51,372	342,449	2,321
KT Telecop Co., Ltd.	130,410	96,214	34,196	216,651	4,874
KT Hitel Co., Ltd.	223,225	37,744	185,481	149,845	(2,739)
KT Tech, Inc.	129,052	109,470	19,582	341,514	1,725
KTR Co., Ltd.	304,047	269,345	34,702	28,869	1,231
KT Rental Co., Ltd.	933,557	673,211	260,346	378,775	13,797
KT Capital Co., Ltd.	2,037,839	1,837,892	199,947	176,389	27,763
KTDS	147,950	118,184	29,766	355,542	8,144
KT M&S Co., Ltd.	265,446	239,158	26,288	615,972	(19,959)
New Telephone Company, Inc.	220,209	18,610	201,599	129,263	33,001
Others	691,247	249,396	441,851	485,318	3,342
Total	₩ 5,420,695	₩ 3,838,532	₩ 1,582,163	₩ 3,348,078	₩ 87,092

A summary of financial data of the major consolidated subsidiaries as of and for the year ended December 31, 2010, prior to the elimination of intercompany transactions. The financial data of New Telephone Company, Inc. are based on the consolidated financial statements and the financial data of all others are based on non-consolidated financial statements.

3. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Controlling Company and its subsidiaries (collectively referred to as “the Company”) in the preparation of its financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Presentation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

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KT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Principles of Consolidation

The fiscal year end of the consolidated subsidiaries is the same as that of the Controlling Company, except for KT Internal Venture Fund No.2 and KTC Media Contents Fund 1. If the fiscal year end of a consolidated subsidiary is different from that of the Controlling Company, the consolidated financial statements are prepared based on the subsidiary's reliable financial statements as of the fiscal year end of the Controlling Company. Differences in accounting policy between the Company and its consolidated subsidiaries are adjusted during consolidation.

The investment accounts of the Controlling Company and corresponding capital accounts of the subsidiaries are eliminated as of the fiscal year end of the subsidiaries closest to date when the Controlling Company acquires control in the subsidiaries. All significant intercompany transactions and balances with consolidated subsidiaries have been eliminated during consolidation.

When the Company has control over a subsidiary, the Company records differences between the initial investment accounts and corresponding capital accounts of subsidiaries as goodwill or negative goodwill. The goodwill is amortized using the straight-line method over the estimated useful lives, which range from four to ten years. The negative goodwill relating to the expected expense or loss in the future is reversed as a gain when the related expense or loss is actually incurred, whereas the negative goodwill not relating to the certain future expense is amortized over the weighted average useful lives of depreciable non-monetary assets of an acquiree and the amounts of this negative goodwill in excess of the fair value of the total non-monetary assets of an acquiree are recorded as a gain as of the acquisition date. In addition, the differences between the additional investment in the subsidiaries and net assets of the subsidiaries attributable to subsequently acquired controlling interest and differences between the acquisition cost of the investments in the subsidiaries and changes in net assets of the subsidiaries due to certain equity transaction of the subsidiaries including capital increase with consideration are reflected in the capital surplus or capital adjustment.

When the Company has a significant influence over the equity-method investees, the Company accounts for the initial investment differences between the initial investment and net assets of equity-method investees and the subsequent investment differences resulting from increase in the ownership percentage in the equity investees due to the certain equity transaction, such as the capital increase with consideration, as goodwill or negative goodwill in accordance with "*Accounting Standard for Business Combination*", while the subsequent investment differences arising from decrease in ownership percentage in the equity-method investees due to certain equity transaction, such as the capital decrease with cash payments, are accounted for as gains(losses) on disposal.

Unrealized gains or losses included in inventories and other assets as a result of intercompany transactions are eliminated based on the average gross profit ratio of the corresponding company. Unrealized gains or losses, arising from sales by the Controlling Company to the consolidated subsidiaries, are fully eliminated and charged to the equity of the Controlling Company. Unrealized gains or losses, arising from sales by the consolidated subsidiaries to the Controlling Company, or sales between consolidated subsidiaries, are fully eliminated, and charged to the equity of the Controlling Company and the minority interests, based on the percentage of ownership. Unrealized gains or losses, arising from the transaction between the Company and equity method investees are eliminated in proportion to the Company's ownership and reflected in equity-method investments.

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KT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Minority interest

The Company records the equity of the consolidated subsidiaries, which is not included in the equity of the Controlling Company, as minority interest in consolidated subsidiaries. In addition, if losses of the consolidated subsidiaries included in minority interest are in excess of minority interest, the deficit in excess of minority interest is deducted from shareholders' equity as a negative minority interest.

Reclassifications of Prior Year Financial Statements

Certain reclassifications have been made in the December 31, 2009 consolidated financial statements to conform to the December 31, 2010 consolidated financial statement presentation. Such reclassifications did not have an effect on the shareholders' equity and net income of the Company as of and for the year ended December 31, 2009.

Revenue Recognition

Revenue is the gross inflow of economic benefits arising in the ordinary course of the Company's activities and is measured as the fair value of the consideration received or receivable for the sale of goods and services in the said ordinary course of the Company's activities. Revenue is shown as net of value-added tax, sales discounts and sales returns. The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.

Revenue from the sale of goods are recognized when the significant risks and rewards of ownership of goods are transferred to the buyer. Revenue from the rendering of services is recognized under the percentage-of-completion method, under which revenue is generally recognized based on the costs incurred to date as a percentage of the total estimated costs to be incurred.

The Company recognizes revenues from construction contracts using the percentage-of-completion method to determine the amounts to be recognized as revenues in a given period. The stage of completion is measured using the percentage of the total contract costs incurred up to the date of statement of financial position over the total estimated costs for each contract. When the outcome of a construction contract cannot be estimated reliably, the contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable, and contract costs incurred for the period is recognized as an expense.

Interest income is recognized using the effective interest method. Dividend income is recognized when the rights to receive such dividends and amounts thereof are determined.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, and financial instruments with maturity of three months or less at the time of purchase. These financial instruments are readily convertible into cash without significant transaction costs and bear low risks from changes in value due to interest rate fluctuations.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method.

KT Corporation and Subsidiaries

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Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories are determined using the moving-weighted average method. Goods-in-transit and land use the specific identification method. Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense. Replacement cost is used for the estimate of the net realizable value of raw materials. Market prices of merchandise and supplies are net realizable value and replacement cost, respectively. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed up to the original carrying amount before valuation. The said reversal is deducted from cost of sales.

Investments in Securities

Costs of debt securities and equity securities are determined using the specific identification method and the moving-weighted average method, respectively. Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity method of accounting. Trading securities are classified as current assets while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expense. Realized gains and losses on available-for-sale securities are recognized in the income statement.

Equity-Method Investments

Company reflects any changes in the equity of its equity-method investments after the initial purchase date. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. All other changes in equity should be accounted for under other comprehensive income and expense.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. It also includes the present value of the estimated cost of dismantling and removing the asset, and restoring the site after the termination of the asset's useful life, provided it meets the criteria for recognition of provisions.

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Property, plant and equipment are stated net of accumulated depreciation calculated by straight-line and declining-balance methods based on following estimated useful lives:

	Estimated Useful Lives
Building	5 - 60 years
Structures	5 - 40 years
Equipment	
Machinery	3 - 15 years
Other	6 - 15 years
Underground access to cable tunnels and concrete and steel telephone poles	20 - 40 years
Vehicles	3 - 10 years
Others	
Tools	3 - 8 years
Office equipment	2 - 20 years

Expenditures incurred after the acquisition or completion of assets are capitalized if they enhance the value of the related assets over their recently appraised value or extend the useful life of the related assets. Routine maintenance and repairs are charged to expense as incurred.

Intangible Assets

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization calculated by straight-line method based on following estimated useful lives:

	Estimated Useful Lives
Goodwill	4 - 10 years
Industrial property rights	5 - 10 years
Development Costs	3 - 8 years
Software	4 - 8 years
Frequency usage rights	5.75 years or 13 years from the date of service commencement
Other intangible assets	
Building rights	30, 50 years
Copyrights	50 years
Others	10 - 20 years

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Development costs which are individually identifiable and directly related to a new technology or to new products which carry probable future benefits are capitalized as intangible assets. Amortization of development cost begins at the commencement of the commercial production of the related products or use of the related technology.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Controlling Company's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition.

Capitalization of Interest Expense

The Company capitalizes the interest it incurs on borrowings used to finance the cost of manufacturing, acquisition, and construction of inventory and property, plant, and equipment that require more than one year to complete from the initial date of manufacture, acquisition, and construction.

Government Grants

The Company recognizes government grants, which are to be repaid, as liabilities. The government grants and donations, which are intended to be used for the acquisition of certain assets, are deducted from the cost of the acquired assets. The government grants or donations, received to compensate for specific expenses, are offset against the related expenses. Other government grants or donations, for which the use or purpose is not specified, are recorded as gains from assets received, and are recognized in current operations. Before the acquisition of the assets specified by the grant or donation, the amounts are recognized as a deduction from the account under which the asset to be acquired is to be recorded and offset against the depreciation expense over the period of the asset's useful life. After the disposal of the assets specified by the grant or donation, the remaining amounts are deducted or added to the asset's disposal gain and loss.

Impairment of Assets

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to agree with recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. Reversal of impairment of goodwill is not allowed.

Derivatives

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes in fair value of derivative instruments are recognized either under the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized under the shareholders' equity under accumulated other comprehensive income and expense.

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Income Tax and Deferred Income Tax

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

Discounts on Debentures

Discounts on debentures are amortized over the term of the debentures using the effective interest rate method. Amortization of the discount is recorded as part of interest expense.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the date of statement of financial position.

The domestic subsidiaries has partially funded their accrued severance benefits through severance insurance deposits with an insurance company. Deposits made by the subsidiaries are recorded as deductions from accrued severance benefits. The excess portion of deposits over accrued severance benefits is recorded as other investments.

In addition, the domestic subsidiaries deposit a certain portion of severance benefits to National Pension Service according to National Pension Law. The deposit amount is recorded as a deduction from accrued severance benefits.

Overseas subsidiaries accrue employees' retirement benefits according to the local regulations in which they operate.

Provisions and Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

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Notes to Consolidated Financial Statements

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Finance Leases

i) The Company as Lessee

The Company accounts for lease transactions as either operating lease or finance lease, depending on the terms of the lease agreement. A finance lease is a lease that transfers substantially all the risks and rewards incidental to the ownership of an asset. The lower of the present value of minimum lease payments and the fair value of the lease asset is recognized as the value of the capital lease asset or liability. Annual minimum lease payments, excluding residual value, are allocated to interest expense, or for the redemption of capital lease liability using the effective interest method.

ii) The Company as Lessor

The Company accounts for lease transactions as finance lease for leases that transfer substantially all of the risks and benefits of ownership of the lease asset to the lessee. The Company recognizes the amount equivalent to the net investment in the lease asset as finance lease receivable. The Company recognizes interest income over lease term using systematic and reasonable method. Interest income is calculated for net finance lease receivable based on effective interest rate. The lease receipt is recorded separately as collection of finance lease receivable and interest income.

Operating Leases

i) The Company as Lessee

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. The annual minimum lease payments, less guaranteed residual value, are charged to expense on a regular basis over the lease term.

ii) The Company as Lessor

The Company accounts for operating leases as leases that do not transfer substantially all of the risks and benefits of ownership of the lease asset to the lessee. The lease assets are recognized as tangible or intangible assets depending on the nature of the lease assets. The annual minimum lease receipts, less guaranteed residual value, are recognized as revenue over the lease term.

Valuation of Assets and Liabilities at Present Value

Receivables and payables resulting from long-term installment payment transactions, long-term cash loans or other similar borrowings, are valued at their present values, discounted at an appropriate discount rate when the difference between the nominal value and present value is material. The present value discounts are amortized or recovered using the effective interest rate method and are recognized as interest income or expense over the term of the contract.

Translation of Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the date of statement of financial position, and the resulting translation gains and losses are recognized in current operations.

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Currency Translation for Foreign Operations

Assets and liabilities of a foreign branch or company subject to the equity method of accounting for investments are translated into Korean won at the rates of exchange in effect at the date of statement of financial position, while their equity is translated at the exchange rate at the time of transaction, and income statement accounts at the average rate over the period. Net translation adjustments are allocated to the controlling interest and minority interest and the portions allocated to the controlling interest are accounted for as gain(loss) on translation of foreign operation included in the other comprehensive income. Net translation adjustment of equity-method investees are accounted for as comprehensive income(expensive) of equity-method investees in the other comprehensive income.

Share-based Payments

In case of equity-settled share-based payment, the fair value of the goods or employee services received in exchange for the grant of the options is recognized as an expense and a capital adjustment. If the fair value of goods or employee services cannot be estimated reliably, the fair value is estimated based on the fair value of the equity granted.

For cash-settled share-based payment, the fair value of the obligation the Company will assume is determined by the fair value of the goods or employee services received in exchange for the grant of the options. Until the liability is settled, the Company is required to measure the fair value at date of statement of financial position and at settlement date. The change in fair value is recognized as an expense.

Share-based payment transactions with an option for the parties to choose between cash and equity settlement are accounted for based on the substance of the transaction.

Joint Venture

A joint venture is a contractual agreement to establish joint control over business, assets or entities. In case of jointly controlled entities that involve the establishment of a corporation, partnership or other entity in which each participant has an interest, the Company applies the equity method of accounting. As of December 31, 2010, the Company holds 50% of ownership on Kumho Rent-A-Car Global Co., Ltd., and applies the equity method of accounting.

Accounting Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

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Notes to Consolidated Financial Statements

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Reconciliation of the differences in accounting policies

For the year ended December 31, 2010, the following adjustments were made on the subsidiaries' financial statements to reconcile the differences in accounting policies between the Controlling Company and subsidiaries:

<i>(in millions of Korean won)</i>	Net assets		Amount		Net assets		Remarks
	before adjustment		of adjustment		after adjustment		
KT Linkus Co., Ltd.	₩	8,444	₩	(375)	₩	8,069	Adjustment of amortization of investment different between subsidiaries
KT Hitel Co., Ltd.		185,481		(4,824)		180,657	
KT New Business Fund No. 1		22,432		(165)		22,267	
Total	₩	216,357	₩	(5,364)	₩	210,993	

4. Restricted Deposits

Restricted deposits as of December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010	2009	Description
Cash and cash equivalents	₩ 9,495	₩ 10,241	Restricted for research and development
Short-term investment assets	14,211	12,817	Restricted for investing in Media Contents, Pledge
Long-term investment assets	3,054	3,035	Checking account deposits
Total	₩ 26,760	₩ 26,093	

5. Inventories

Inventories as of December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010			2009		
	Acquisition cost	Valuation allowance	Book Value	Acquisition cost	Valuation allowance	Book Value
Merchandise	₩ 598,486	₩ (39,715)	₩ 558,771	₩ 625,253	₩ (45,157)	₩ 580,096
Supplies	38,361	(1,540)	36,821	43,996	(4,716)	39,280
Others	60,239	-	60,239	80,026	-	80,026
Total	₩ 697,086	₩ (41,255)	₩ 655,831	₩ 749,275	₩ (49,873)	₩ 699,402

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6. Loans Receivable

Loans granted by KT Capital and KTR as of December 31, 2010 and 2009, are summarized as follows:

Current

<i>(in millions of Korean won)</i>	2010			2009		
	Original amount	Allowance for doubtful accounts	Carrying value	Original amount	Allowance for doubtful accounts	Carrying Value
Factoring	₩ 35,737	₩ (179)	₩ 35,558	₩ 15,077	₩ (76)	₩ 15,001
Loans	680,684	(8,961)	671,723	448,398	(9,168)	439,230
Deferred incidental revenue	(1,434)	-	(1,434)	(753)	-	(753)
Accounts receivable-loans	13,383	(1,604)	11,779	2,154	(94)	2,060
Loans for installment credit	37,401	(586)	36,815	28,412	(2,334)	26,078
Deferred incidental expense	11	-	11	5	-	5
Accounts receivable-loans for installment credit	546	-	546	950	(14)	936
Financial investment for new technology	18	-	18	200	(94)	106
Financial loans for new technology	-	-	-	2,500	(237)	2,263
Total	₩ 766,346	₩ (11,330)	₩ 755,016	₩ 496,943	₩ (12,017)	₩ 484,926

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Non-Current

<i>(in millions of Korean won)</i>	2010			2009		
	Original amount	Allowance for doubtful accounts	Carrying value	Original amount	Allowance for doubtful accounts	Carrying value
Factoring receivables	₩ -	₩ -	₩ -	₩ 2,945	₩ (15)	₩ 2,930
Loans	352,816	(4,419)	348,397	378,768	(7,242)	371,526
Deferred incidental revenue	(2,139)	-	(2,139)	(3,593)	-	(3,593)
Loans for installment credit	56,852	(931)	55,921	43,833	(2,994)	40,839
Deferred incidental expense	(89)	-	(89)	179	-	179
New technology financial investment assets	3,966	(20)	3,946	1,356	(911)	445
New technology financial loans	9,315	(264)	9,051	2,932	(277)	2,655
Total	₩ 420,721	₩ (5,634)	₩ 415,087	₩ 426,420	₩ (11,439)	₩ 414,981

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7. Securities

Trading securities as of December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010	2009
Beneficiary certificates	₩ 6,003	₩ 21,470

The above trading securities are in short-term investment assets in the consolidated statements of financial position and carried at fair value determined based on the trading price as of year-end published by the financial institutes.

Available-for-sale securities as of December 31, 2010 and 2009, are as follows:

Current

<i>(in millions of Korean won)</i>	2010	2009
Beneficiary certificates	₩ -	₩ 6,508
Debt securities	45	3
Total	₩ 45	₩ 6,511

The above current available-for-sale securities are included in the short-term investment assets in the consolidated statements of financial position and carried at fair value determined based on the trading price as of fiscal year-end published by the financial institutes.

Non-current

<i>(in millions of Korean won)</i>	2010	2009
Marketable equity securities ¹		
Solitech Co., Ltd.	₩ 2,684	₩ 2,348
Digital Ocean Co., Ltd. (formerly GaeaSoft Corp.)	214	487
Krtnet Corp.	2,536	2,626
PT. Mobile-8 Telecom Tbk	2,561	2,504
Show Mirae Asset PEF 1	3,274	2,168
KOREA CABLE T.V CHUNG-BUK SYSTEM CO., LTD.	1,250	221
Daewoo Securities Green Korea Special Purpose Acquisition Company	2,818	-
Tongyang Value Ocean Special Purpose Acquisition Company	606	-
Others	4,178	1,503
Sub-total	20,121	11,857
Non-marketable equity securities ¹		
Korea Information Certificate Authority, Inc.	1,000	2,000
Vacom Wireless, Inc.	641	641

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Neighbor Systems Co., Ltd.	525	525
Entaz Co., Ltd.	1,000	1,000
Smart Channel Co., Ltd.(formerly Mediapuff Plus) ²	500	500
SBS KT SPC	25,000	15,000
IBK-Auctus Green Growth PEF	7,000	100
MBC KT SPC	11,000	11,000
Korea Software Financial Cooperative	1,220	1,220
Daesung Private Equity Fund	3,000	3,000
Translink Capital Partners I, L.P. ³	2,430	5,222
Translink Management II Fund ⁴	1,731	-
Pacren Walden Ventures Parallel VI-KT, L.P. ⁵	5,858	3,652
Sovik Contents Investment Fund	1,500	1,500
Korea Telecommunications Operators Association	689	689
GE Premier 1 st CR-REIT	3,000	-
Wooridle Film Investment Fund No. 1 ⁶	563	-
Luxpia Co., Ltd.	1,000	1,000
Leaders PEF	16,003	18,644
Minigate Co., Ltd	2,400	-
Mirae Asset PEF	5,090	-
BC Card Co., Ltd	8,712	-
SEMI Materials, Co., Ltd	2,990	-
SEJONG Metal Co., Ltd. (redeemable convertible preferred stock)	1,100	-
Smith & Mobile Inc.	1,500	-
Alti semiconductor Co.,Ltd	3,000	-
Alphaasset Sinabro Private Stock Investment Trusts 7 th	2,725	-
Enswers Inc.	2,001	2,001
On Game Network Inc.	5,368	5,527
Woongjin passone	3,121	-
Wiz communications Co.,Ltd	1,852	1,987
QCP Investment Purpose Company III Inc.	2,000	2,000
Petra PEF 2 nd	5,000	-
Petra PEF 1 st	3,905	4,000
Hyundai-Asan Private Stock Investment Trusts	2,819	-
CJ Venture Investment 12th Global Contents Investment Fund	1,969	2,003
Enterprise DB Corp.	3,013	-
KDBCJKL PEF 2 nd	4,200	-
KoFC-IMM Pioneer Champ 2010-17th Investment Fund	2,010	-
Nexenta Systems, Inc.	2,260	-

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SoftBank Commerce Korea	959	959
Shinhan Venture Capital Co., Ltd.	900	900
Others	17,438	15,002
Sub-total	169,992	100,072
Debt securities		
Government and public bonds	20	64
Tongyang Value Ocean Special Purpose Acquisition Company	200	200
Convertible bonds		
KIC Co., Ltd. Convertible bonds	813	-
Foosung Co., Ltd. Convertible bonds	-	2,420
KB2B. Bonds with warrant	2,443	1,677
Saehacoms Co., Ltd. Bonds with warrant	783	-
Probe corp. Convertible bonds	1,000	1,000
Sejong Metal Co., Ltd. Bonds with warrant	981	-
Others	3,162	-
Sub-total	9,402	5,361
Total	₩ 199,515	₩ 117,290

¹ The fair value of marketable equity securities is determined using quoted market prices as of year end. Non-marketable equity securities are recognized at acquisition cost if the fair value of the securities cannot be reliably measured due to lack of basis and experience. But if the reasonably estimated recoverable amounts of non-marketable securities are less than the carrying amounts and the amount of deficiency is material then, the securities are recognized at the recoverable amounts by deducting the deficiency from the carrying amounts directly.

² The securities are pledged as collateral for borrowings of investee.

³ During the year ended December 31, 2010, the Company recognized ₩2,792 million of loss on impairment of investment securities as non-operating expense.

⁴ Although the Company's ownership interest in this investee is 48.29%, the investee is an entrusted asset in substance and the Company concludes that it has no significant influence over this investee. Accordingly, the Company classifies this investment as an available-for-sale security.

⁵ Although the Company's ownership interest in this investee is 99.01%, the investee is an entrusted asset in substance and the Company concludes that it has no significant influence over this investee. Accordingly, the Company classifies this investment as an available-for-sale security.

⁶ The Company has no significant influence due to withdrawal from the fund. Accordingly, the Company reclassifies this investment as an available-for-sale security.

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Held-to-maturity securities as of December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>		2010	2009
Current(*)		₩ -	₩ 17
Non-Current		66	65
Total		₩ 66	₩ 82

The current held-to-maturity securities are included in short-term investment assets in the consolidated statements of financial position.

Maturities of debt securities as of December 31, 2010, are as follows:

<i>(in millions of Korean won)</i>	Available-for-sale	Held-to-maturity
Within 1 year	₩ 45	₩ -
Over 1 year and within 5 years	9,402	66
Total	₩ 9,447	₩ 66

For the years ended December 31, 2010 and 2009, changes in valuation gain or loss on short-term available-for-sale securities are as follows:

2010

(in millions of Korean won)

2010.1.1	Valuation Amount	Included in Earnings	2010.12.31
₩ 7,800	₩ 2,201	₩ 1,392	₩ 11,393
	Deferred income tax		(2,342)
	Total		₩ 9,051

2009

(in millions of Korean won)

2009.1.1	Valuation Amount	Included in Earnings	2009.12.31
₩ (2,810)	₩ 5,015	₩ 5,595	₩ 7,800
	Deferred income tax		(2,009)
	Total		₩ 5,791

The amounts are not adjusted for the minority interests in consolidated subsidiaries.

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8. Equity-method Investments

Equity-method investments as of December 31, 2010 and 2009, are as follows:

(In millions of Korean won)

Investee	Percentage of Ownership	2010			2009		
		Acquisition Cost	Net asset value	Carrying value	Acquisition Cost	Net asset value	Carrying value
Kumho Rent-A-Car Global Co., Ltd. ^{1,9}	50.00%	₩ 2,032	₩ 589	₩ 943	₩ -	₩ -	₩ -
Korea Telecom Directory Co., Ltd.	34.00%	6,800	(2,559)	-	6,800	(2,283)	-
KBSi Co., Ltd.	32.38%	4,760	6,874	6,874	4,760	5,259	5,259
CU Industrial Development Co., Ltd. ⁸	19.00%	506	9,198	9,198	506	12,769	12,769
KTCS Corporation ^{7,8}	17.05%	3,800	19,613	19,613	3,800	16,449	16,449
KTIS Corporation ^{7,8}	17.80%	2,850	19,432	19,432	2,850	16,413	16,413
Korea Digital Satellite Broadcasting Co., Ltd. ¹¹	32.28%	195,976	29,247	29,247	195,976	12,945	12,945
MOS Facilities Co., Ltd. ⁸	15.93%	5,000	101	101	5,000	114	114
Kiwoom Investment Co., Ltd.	20.17%	9,000	7,858	7,858	9,000	7,175	7,175
Korea Information & Technology Fund ¹⁰	33.33%	100,000	122,042	122,042	100,000	115,636	115,636
Exdell Corporation ⁸	19.00%	190	273	273	190	239	239
Information Technology Solution Bukbu Corporation ⁸	18.00%	180	368	368	180	376	376
Information Technology Solution Nambu Corporation ⁸	18.00%	180	360	360	180	381	381
Information Technology Solution Seobu Corporation ⁸	18.00%	180	434	434	180	451	451
Information Technology Solution Busan Corporation ⁸	18.00%	180	322	322	180	339	339
Information Technology Solution Jungbu Corporation ⁸	18.00%	180	470	470	180	458	458
Information Technology Solution Honam Corporation ⁸	18.00%	180	434	434	180	414	414
Information Technology Solution Deagu Corporation ⁸	18.00%	180	245	245	180	269	269
Everyshow	20.69%	1,500	688	688	1,500	1,045	1,045
KT-Global New Media Fund	50.00%	14,000	12,663	12,663	14,000	12,932	12,932
Company K Movie Asset Fund No. 1	60.00%	9,000	9,362	9,362	9,000	8,806	8,806
Boston Global Film & Contents Fund L.P.	31.84%	10,000	10,146	10,146	10,000	10,085	10,085
OIC Co., Ltd. (formerly OIC Language Visual Limited)	20.00%	200	41	41	200	183	183
Mongolian Telecommunications	40.00%	3,450	12,312	12,312	3,450	11,135	11,135
Metropol Property LLC	34.00%	1,739	628	1,373	1,739	640	1,684
WiBro Infra Co., Ltd. ²	26.22%	65,000	65,502	65,502	-	-	-
Harex Info Tech Inc. ⁸	14.77%	3,375	433	433	3,375	62	62
Boston Film Fund	38.96%	7,461	1,383	1,383	8,000	4,249	4,249
KTF-CJ Music Contents Investment Fund	50.00%	5,000	4,952	4,952	5,000	4,955	4,955
Shinhan-KT Mobilecard Co., Ltd.	50.00%	1,000	(1)	-	1,000	248	248
KT-DoCoMo Mobile Investment Fund	45.00%	4,500	4,858	4,858	4,500	4,473	4,473

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MetroM Co., Ltd. ⁸	19.88%	80	179	179	80	147	147
KDNET Co., Ltd. ⁸	19.88%	80	142	142	80	147	147
GOODTECH Co., Ltd. ⁸	19.88%	80	180	180	80	153	153
Touchtel Co., Ltd. ⁸	19.90%	100	183	183	100	180	180
KNS Co.,Ltd (formerly Excelnet Co., Ltd.)	20.62%	249	259	259	100	120	120
KMTEC Co., Ltd. ⁸	19.90%	100	185	185	100	183	183
MTT Co., Ltd. ⁸	19.90%	100	221	221	100	206	206
Goodmorning F Co., Ltd. ⁸	19.00%	254	891	891	254	1,696	1,696
BKLCD Co., Ltd.	29.15%	20,000	18,111	18,111	20,000	19,542	19,542
TPS	100.00%	164	1,100	1,100	164	1,283	1,283
ETN	100.00%	1	1	1	1	1	1
Oscar ent. Co., Ltd.	49.00%	650	423	423	650	398	398
KT-IMM Investment Fund ²	45.45%	5,000	5,076	5,076	-	-	-
Ansan U-City BTL ^{1,8}	15.00%	98	68	68	-	-	-
Miraeasset Good Company Investment Fund No.3 ²	33.33%	3,040	3,008	3,008	-	-	-
2010 KIF IMM IT Investement Fund ²	21.88%	700	659	659	-	-	-
Anyang KDC project ²	21.05%	2,600	2,600	2,600	-	-	-
QCP New technology investment fund 20th ²	37.74%	2,000	96	96	-	-	-
Nau IB 7th fund ²	30.77%	2,000	302	302	-	-	-
Saehacoms Co., Ltd. ¹	20.00%	500	393	393	-	-	-
Crzyfish, Inc. ¹	25.05%	500	455	455	-	-	-
Haitai Confectionery & Foods Co., Ltd ^{1,10}	30.37%	53,741	35,713	52,689	-	-	-
Wooridle Film Investment Fund ³	-	-	-	-	1,600	1,478	1,478
eNtoB Corp. ⁴	-	-	-	-	6,050	8,314	8,730
WMC Co., Ltd. ⁵	-	-	-	-	80	98	98
Sky Life Contents Fund ⁴	-	-	-	-	4,500	3,751	3,751
Netcom ⁴	-	-	-	-	90	-	-
PARANGOYANGI ⁶	-	-	-	-	2,900	(542)	-
Music City Media Co., Ltd. ⁶	-	-	-	-	1,040	(688)	-
D&G Star Co., Ltd. ⁴	-	-	-	-	260	27	27
Paramount Music Co., Ltd. ⁴	-	-	-	-	1,000	305	305
Total		₩ 550,436	₩ 408,513	₩ 429,148	₩ 431,135	₩ 283,016	₩ 287,989

¹ The Company newly acquired the shares of the investees in 2010.

² These companies are newly established in 2010.

³ The investments in the investees were reclassified as an available-for-sale in 2010.

⁴ The Company sold all of its equity shares of these companies in 2010.

⁵ WMC Co., Ltd. merged with KNS Co.,Ltd. in 2010.

⁶ These companies were liquidated in 2010.

⁷ The shares of the investees are listed on the Korea Exchange in 2010.

⁸ As of December 31, 2010, the Company's ownership of the investees is less than 20%. Since the Company can exercise significant influence or control over the investees, the investments are classified as equity method investment.

⁹ This investment is the joint venture. As a result, the Company accounts for this investment using the equity

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method.

¹⁰ Although the Company's respective ownership in these companies is more than 30%, the Company is not the largest stockholder of these companies. As a result, the Company accounts for these investments as equity-method investments.

¹¹ As the Company is not the largest shareholder of these companies in the consideration of the potential voting rights, the Company accounts for these investments as equity-method investments.

The details of changes in differences between the initial purchase price and the Company's initial proportionate ownership in net book value of the investees ended December 31, 2010 and 2009, are as follows:

		2010			
<i>(in millions of Korean won)</i>		2010.1.1	Addition	Amortization	2010.12.31
Kumho Rent-A-Car	₩	-	₩ 1,415	₩ (1,062)	₩ 353
Metropol Property LLC		1,044	-	(298)	746
eNtoB Corp.		416	(345)	(71)	-
Haitai Confectionery & Foods Co., Ltd.		-	20,842	(3,908)	16,934
Total	₩	1,460	₩ 21,912	₩ (5,339)	₩ 18,033

		2009			
<i>(in millions of Korean won)</i>		2009.1.1	Addition	Amortization	2009.12.31
eNtoB Corp.	₩	553	₩ -	₩ (137)	₩ 416
Korea Digital Satellite Broadcasting Co., Ltd.		10,928	-	(10,928)	-
Harex Info Tech Inc.		383	-	(383)	-
U-Mobile		49,561	(43,731)	(5,830)	-
Metropol Property LLC		1,342	-	(298)	1,044
OliveNine Entertainment Co., Ltd.		644	(644)	-	-
The Contents Entertainment		947	(947)	-	-
Doremi Music Publishing Co., Ltd.		(15)	15	-	-
Total	₩	64,343	₩ (45,307)	₩ (17,576)	₩ 1,460

There are no unrealized gains and losses arising from intercompany transactions to be eliminated as of December 31, 2010.

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The changes in the book values of equity-method investments for the years ended December 31, 2010 and 2009, are as follows:

(In millions of Korean won)

Investee	2010					2010.12.31
	2010.1.1	Acquisition (Disposal)	Valuation gain(loss)	Other increase (Decrease)		
Kumho Rent-A-Car Global	₩ -	₩ -	₩ (1,719)	₩ 2,662	₩	943
KBSi Co., Ltd.	5,259	-	1,615	-		6,874
CU Industrial Development Co., Ltd.	12,769	-	(3,571)	-		9,198
KTCS Corporation	16,449	-	3,127	37		19,613
KTIS Corporation	16,413	-	3,569	(550)		19,432
Korea Digital Satellite Broadcasting Co., Ltd. ¹	12,945	-	16,142	160		29,247
MOS Facilities Co., Ltd.	114	-	(253)	240		101
Kiwoom Investment Co., Ltd.	7,175	-	462	221		7,858
Korea Information & Technology Fund	115,636	-	6,915	(509)		122,042
Exdell Corporation	239	-	34	-		273
Information Technology Solution Bukbu Corporation	376	-	(8)	-		368
Information Technology Solution Nambu Corporation	381	-	(21)	-		360
Information Technology Solution Seobu Corporation	451	-	(17)	-		434
Information Technology Solution Busan Corporation	339	-	(17)	-		322
Information Technology Solution Jungbu Corporation	458	-	12	-		470
Information Technology Solution Honam Corporation	414	-	20	-		434
Information Technology Solution Deagu Corporation	269	-	(24)	-		245
Everyshow	1,045	-	(378)	21		688
KT-Global New Media Fund	12,932	-	(269)	-		12,663
Company K Movie Asset Fund No. 1	8,806	-	556	-		9,362
Boston Global Film & Contents Fund L.P. ¹	10,085	-	61	-		10,146
OIC Co., Ltd. (formerly OIC Language Visual Limited)	183	-	(142)	-		41
Mongolian Telecommunications	11,135	-	(28)	1,205		12,312
Metropol Property LLC	1,684	-	(45)	(266)		1,373
WiBro Infra Co., Ltd.	-	65,000	505	(3)		65,502
Harex Info Tech Inc.	62	-	28	343		433
Boston Film Fund	4,249	(538)	(2,338)	10		1,383
KTF-CJ Music Contents Investment Fund	4,955	-	(3)	-		4,952
Shinhan-KT Mobilecard Co., Ltd.	248	-	(248)	-		-
KT-DoCoMo Mobile Investment Fund	4,473	-	385	-		4,858
MetroM Co., Ltd.	147	-	32	-		179
KDNET Co., Ltd.	147	-	(5)	-		142
GOODTECH Co., Ltd.	153	-	27	-		180
Touchtel Co., Ltd.	180	-	3	-		183
KNS Co., Ltd (formerly Excelnet Co., Ltd.)	120	-	(17)	156		259
KMTEC Co., Ltd.	183	-	2	-		185
MTT Co., Ltd.	206	-	15	-		221
Goodmorning F Co., Ltd.	1,696	(884)	77	2		891
BKLCD Co., Ltd.	19,542	-	(310)	(1,121)		18,111

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TPS	1,283	-	3,512	(3,695)	1,100
ETN	1	-	-	-	1
Oscar ent. Co., Ltd.	398	-	25	-	423
KT-IMM Investment Fund	-	5,000	76	-	5,076
Ansan U-City BTL ¹	-	98	(30)	-	68
Miraeasset Good Company Investment Fund No.3 ¹	-	3,040	(32)	-	3,008
2010 KIF IMM IT Investement Fund ¹	-	700	(41)	-	659
Anyang KDC project	-	2,600	-	-	2,600
QCP New technology investment fund 20th	-	2,000	-	(1,904)	96
Nau IB 7th fund ¹	-	2,000	53	(1,751)	302
Saehacoms Co., Ltd.	-	500	(107)	-	393
Crzyfish, Inc.	-	500	(45)	-	455
Haitai Confectionery & Foods Co., Ltd	-	53,741	(1,052)	-	52,689
Wooridle Film Investment Fund	1,478	-	(447)	(1,031)	-
eNtoB Corp. ¹	8,730	(7,937)	400	(1,193)	-
WMC Co., Ltd.	98	-	19	(117)	-
Sky Life Contents Fund	3,751	(3,812)	61	-	-
Netcom	-	-	-	-	-
D&G Star Co., Ltd.	27	(10)	(2)	(15)	-
Paramount Music Co., Ltd.	305	-	-	(305)	-
Total	<u>₩ 287,989</u>	<u>₩ 121,998</u>	<u>₩ 26,564</u>	<u>₩ (7,403)</u>	<u>₩ 429,148</u>

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(In millions of Korean won)

Investee	2009					2009.12.31
	2009.1.1	Acquisition (Disposal)	Valuation gain(loss)	Other Increase (Decrease)		
Korea Telecom Directory Co., Ltd.	₩ 8,358	₩ -	₩ (8,358)	₩ -	₩ -	-
KBSi Co., Ltd.	4,679	-	580	-		5,259
CU Industrial Development Co., Ltd.	8,369	-	4,350	50		12,769
KTCS Corporation	13,666	1,050	1,771	(38)		16,449
KTIS Corporation	12,812	-	2,233	1,368		16,413
Korea Digital Satellite Broadcasting Co., Ltd.	32,928	-	(4,018)	(15,965)		12,945
MOS Facilities Co., Ltd.	41	-	(275)	348		114
Kiwoom Investment Co., Ltd.	6,953	-	54	168		7,175
Korea Information & Technology Fund	110,909	-	3,984	743		115,636
Exdell Corporation	218	-	21	-		239
Information Technology Solution Bukbu Corporation	225	(13)	164	-		376
Information Technology Solution Nambu Corporation	221	(13)	173	-		381
Information Technology Solution Seobu Corporation	222	(13)	242	-		451
Information Technology Solution Busan Corporation	246	(13)	106	-		339
Information Technology Solution Jungbu Corporation	295	(15)	178	-		458
Information Technology Solution Honam Corporation	248	(13)	179	-		414
Information Technology Solution Deagu Corporation	218	(12)	63	-		269
Everyshow	1,226	-	(181)	-		1,045
KT-Global New Media Fund	5,817	8,000	(885)	-		12,932
Company K Movie Asset Fund No. 1	8,803	-	3	-		8,806
Boston Global Film & Contents Fund L.P. ¹	-	10,001	84	-		10,085
OIC Co., Ltd. (formerly OIC Language Visual Limited)	-	200	(17)	-		183
Mongolian Telecommunications	13,289	-	910	(3,064)		11,135
Metropol Property LLC	1,776	-	-	(92)		1,684
Harex Info Tech Inc.	631	-	(569)	-		62
Boston Film Fund	4,281	-	(32)	-		4,249
KTF-CJ Music Contents Investment Fund	5,038	-	(83)	-		4,955
Shinhan-KT Mobilecard Co., Ltd.	708	-	(460)	-		248
KT-DoCoMo Mobile Investment Fund	4,439	-	34	-		4,473
MetroM Co., Ltd.	-	-	76	71		147
KDNET Co., Ltd.	-	-	75	72		147
GOODTECH Co., Ltd.	-	-	81	72		153
Touchtel Co., Ltd.	-	-	91	89		180
KNS Co.,Ltd (formerly Excelnet Co., Ltd.)	-	-	30	90		120
KMTEC Co., Ltd.	-	-	93	90		183
MTT Co., Ltd.	-	-	117	89		206
Goodmorning F Co., Ltd.	1,460	-	235	1		1,696
BKLCD Co., Ltd.	-	20,000	(458)	-		19,542
TPS	205	-	2,429	(1,351)		1,283
ETN	1	-	-	-		1
Oscar ent. Co., Ltd.	384	-	14	-		398
Wooridle Film Investment Fund ¹	1,529	-	(51)	-		1,478
eNtoB Corp.	8,740	-	281	(291)		8,730

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WMC Co., Ltd.	-	-	27	71	98
Sky Life Contents Fund	3,737	-	14	-	3,751
Netcom	80	-	(1)	(79)	-
D&G Star Co., Ltd.	190	-	(163)	-	27
Paramount Music Co., Ltd.	313	-	(8)	-	305
KTC Media Contents Investment Fund No.1	4,510	-	-	(4,510)	-
OLIVE9	-	(3)	-	3	-
U Mobile	82,663	(65,424)	(17,794)	555	-
KSCALL	327	(449)	281	(159)	-
KOSNC	341	(541)	200	-	-
KCALL	332	(515)	183	-	-
TMWORLD	320	(474)	154	-	-
UMSNC	293	(465)	172	-	-
The Contents Entertainment	950	(950)	-	-	-
Olive Nine Creative Co., Ltd.	150	(150)	-	-	-
Onestone Communication Co., Ltd.	206	(206)	-	-	-
Total	<u>₩ 353,347</u>	<u>₩ (30,018)</u>	<u>₩ (13,671)</u>	<u>₩ (21,669)</u>	<u>₩ 287,989</u>

¹ In accordance with SKAS No. 24 *Preparation and Presentation of Financial Statements II (Financial Industry)*, gain on valuation of equity-method investments amounting to ₩136 million (2009: ₩10 million) and loss on valuation of equity-method investments amounting to ₩102 million (2009: ₩16 million) recorded by KT Capital are classified as operating revenue and operating expense, respectively.

Market value information of publicly listed investees as of December 31, 2010 and 2009, is as follows:

(In millions of Korean won)	2010			
	Number of Shares	Market Price per	Market Value	Recorded Book
	Owned	share		Value
KTCS Corporation	8,132,130	₩ 2,210.0	₩ 17,972	₩ 19,613
KTIS Corporation	6,196,190	3,510.0	21,749	19,432
Mongolian Telecommunications	10,348,111	3,413.1	35,319	12,312

(In millions of Korean won)	2009			
	Number of Shares	Market Price per	Market Value	Recorded Book
	Owned	share		Value
Mongolian Telecommunications	10,348,111	₩ 1,877.8	₩ 19,432	₩ 11,135

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Financial information of investees as of December 31, 2010 and 2009, are as follows:

(In millions of Korean won)

Investee	2010			
	Assets	Liabilities	Sales	Net income(loss)
Kumho Rent-A-Car Global	₩ 6,045	₩ 4,868	₩ 222,039	₩ 1,333
Korea Telecom Directory Co., Ltd.	20,692	28,896	21,648	283
KBSi Co., Ltd.	31,246	10,017	57,947	4,987
CU Industrial Development Co., Ltd.	121,632	73,412	27,981	(18,986)
KTCS Corporation	168,243	53,237	353,950	16,270
KTIS Corporation	157,782	48,641	349,114	18,041
Korea Digital Satellite Broadcasting Co., Ltd.	533,246	385,935	431,356	42,956
MOS Facilities Co., Ltd.	6,097	5,463	22,252	(1,545)
Kiwoom Investment Co., Ltd.	39,173	215	5,135	2,296
Korea Information & Technology Fund	366,281	-	27,930	20,747
Exdell Corporation	2,957	1,519	10,990	257
Information Technology Solution Bukbu Corporation	5,591	3,547	29,091	366
Information Technology Solution Nambu Corporation	4,763	2,763	31,918	246
Information Technology Solution Seobu Corporation	5,488	3,079	35,026	341
Information Technology Solution Busan Corporation	7,210	5,420	25,295	318
Information Technology Solution Jungbu Corporation	5,753	3,144	36,006	654
Information Technology Solution Honam Corporation	5,158	2,747	27,779	458
Information Technology Solution Deagu Corporation	2,892	1,528	18,086	225
Everyshow	4,199	874	7,454	(1,789)
KT-Global New Media Fund	25,357	32	-	(539)
Company K Movie Asset Fund No. 1	15,604	-	1,708	927
Boston Global Film & Contents Fund L.P.	32,053	196	993	192
OIC Co., Ltd. (formerly OIC Language Visual Limited)	243	37	-	(709)
Mongolian Telecommunications	41,075	10,294	19,636	1,363
Metropol Property LLC	2,120	274	1,093	418
WiBro Infra Co., Ltd.	358,261	108,423	374	1,916
Harex Info Tech Inc.	3,593	660	3,075	354
Boston Film Fund	3,549	-	612	148
KTF-CJ Music Contents Investment Fund	9,903	-	627	(6)
Shinhan-KT Mobilecard Co., Ltd.	54	55	102	(498)

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KT-DoCoMo Mobile Investment Fund	10,945	150	945	854
MetroM Co., Ltd.	2,186	1,284	14,810	192
KDNET Co., Ltd.	1,390	672	11,348	78
GOODTECH Co., Ltd.	1,319	410	11,920	170
Touchtel Co., Ltd.	2,348	1,426	12,429	53
KNS Co.,Ltd (formerly Excelnet Co., Ltd.)	2,483	1,225	17,972	136
KMTEC Co., Ltd.	1,861	931	14,448	51
MTT Co., Ltd.	2,064	955	12,791	114
Goodmorning F Co., Ltd.	6,038	1,351	11,701	202
Others	939,868	670,705	749,304	11,092

(In millions of Korean won)

Investee	2009			
	Assets	Liabilities	Sales	Net income(loss)
Korea Telecom Directory Co., Ltd.	₩ 25,809	₩ 32,525	₩ 7,206	₩ (31,297)
KBSi Co., Ltd.	21,242	5,000	33,133	1,791
CU Industrial Development Co., Ltd.	122,646	55,439	55,918	22,898
KTCS Corporation	129,011	47,029	245,156	12,196
KTIS Corporation	129,494	48,715	119,679	13,200
Korea Digital Satellite Broadcasting Co., Ltd.	448,079	344,151	397,457	20,280
MOS Facilities Co., Ltd.	11,529	10,850	22,258	(1,547)
Kiwoom Investment Co., Ltd.	35,672	100	4,750	263
Korea Information & Technology Fund	346,909	-	30,391	11,956
Exdell Corporation	2,111	851	10,781	115
Information Technology Solution Bukbu Corporation	5,036	2,946	22,452	906
Information Technology Solution Nambu Corporation	4,343	2,227	25,790	954
Information Technology Solution Seobu Corporation	4,961	2,457	25,866	1,334
Information Technology Solution Busan Corporation	3,508	1,623	50,624	589
Information Technology Solution Jungbu Corporation	5,072	2,525	34,375	991
Information Technology Solution Honam Corporation	4,655	2,355	19,172	995
Information Technology Solution Deagu Corporation	2,622	1,124	15,489	350
Everyshow	8,280	3,367	4,849	(851)
KT-Global New Media Fund	26,139	275	-	(1,771)
Company K Movie Asset Fund No. 1	14,677	-	1,498	6
Boston Global Film & Contents Fund L.P.	31,861	199	-	262
OIC Co., Ltd. (formerly OIC Language	920	6	-	(86)

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Visual Limited)				
Mongolian Telecommunications	33,715	5,877	24,361	2,275
Metropol Property LLC	2,422	538	1,515	877
Harex Info Tech Inc.	1,114	823	1,782	(868)
Boston Film Fund	11,116	227	119	(111)
KTF-CJ Music Contents Investment Fund	9,960	50	653	(84)
Shinhan-KT Mobilecard Co., Ltd.	596	100	80	(919)
KT-DoCoMo Mobile Investment Fund	10,048	108	65	77
MetroM Co., Ltd.	1,486	748	13,998	210
KDNET Co., Ltd.	1,460	723	11,061	129
GOODTECH Co., Ltd.	1,753	985	11,600	214
Touchtel Co., Ltd.	1,767	862	11,996	80
KNS Co.,Ltd (formerly Excelnet Co., Ltd.)	1,180	577	11,631	201
KMTEC Co., Ltd.	1,442	523	13,459	108
MTT Co., Ltd.	1,839	805	12,300	196
Goodmorning F Co., Ltd.	11,841	2,917	46,545	1,235
Wooridle Film Investment Fund	7,393	-	28	(200)
eNtoB Corp.	72,238	44,716	567,871	1,213
WMC Co., Ltd.	1,181	690	10,541	227
Sky Life Contents Fund	16,800	129	1,390	62
Others	159,019	110,140	323,679	4,815

The adjustments made on the financial statements of investees during the application of the equity method of accounting to reconcile their accounting policies with those of the Company as of December 31, 2010 and 2009, and for the years then ended are as follows:

(In millions of Korean won)	Net Asset		Net Asset		Notes
	before	Adjustments	after		
	Adjustments		Adjustments		
Korea Digital Satellite Broadcasting Co., Ltd.	₩ 47,317	₩ (18,228)	₩ 29,089		Adjustment of equity due to redeemable preferred stock
MOS Facilities Co., Ltd.	122,094	(52)	122,042		Adjustment of dividends payable
QCP New technology investment fund 20	926	(830)	96		Impairment of investments
Total	₩ 170,337	₩ (19,110)	₩ 151,227		

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The changes in the respective accumulated losses of the equity-method investees for which the application of the equity method of accounting has been suspended due to their accumulated losses, for the years ended December 31, 2010 and 2009, are as follows:

	2010			2009		
	2010.1.1	Increase (Decrease)	2010.12.31	2009.1.1	Increase (Decrease)	2009.12.31
Korea Telecom Directory Co., Ltd.	₩ (2,283)	₩ (506)	₩ (2,789)	₩ -	₩ (2,283)	₩ (2,283)
Shinhan-KT Mobilecard Co., Ltd.	-	(1)	(1)	-	-	-
Music City Media Co., Ltd.	(688)	688	-	(688)	-	(688)
PARANGOYANGI	(542)	542	-	(303)	(239)	(542)
Total	₩ (3,513)	₩ 723	₩ (2,790)	₩ (991)	₩ (2,522)	₩ (3,513)

9. Property and Equipment

The changes in property, plant and equipment for the years ended December 31, 2010 and 2009, and its movements for the years then ended are as follows:

	2010							
	Land	Buildings	Structures	Machinery and equipment	Vehicles	Others	Construction - in-progress	Total
Balance at 2010.1.1	₩ 1,466,791	₩ 3,306,258	₩ 147,920	₩ 8,766,736	₩ 31,069	₩ 464,968	₩ 590,818	₩ 14,774,560
Acquisition	10,156	1,468	835	50,525	1,205	890,941	2,587,210	3,542,340
Disposal	(531)	(8,600)	(9,816)	(146,807)	(66)	(26,553)	(96)	(192,469)
Depreciation	-	(158,461)	(14,519)	(2,370,126)	(7,378)	(345,015)	-	(2,895,499)
Impairment	-	-	-	(519)	-	(8,778)	-	(9,297)
Others	(12,592)	94,966	6,165	2,188,230	107	137,219	(2,405,872)	8,223
Balance at 2010.12.31	₩ 1,463,824	₩ 3,235,631	₩ 130,585	₩ 8,488,039	₩ 24,937	₩ 1,112,782	₩ 772,060	₩ 15,227,858
Acquisition cost	₩ 1,463,956	₩ 5,039,486	₩ 322,783	₩ 39,985,058	₩ 81,190	₩ 2,725,599	₩ 814,770	₩ 50,432,842
Accumulated depreciation	-	(1,801,296)	(191,102)	(31,402,282)	(56,253)	(1,597,943)	-	(35,048,876)
Accumulated impairment loss	-	-	-	(1,748)	-	(12,634)	-	(14,382)
Customers' contribution to construction costs	(132)	(2,559)	(1,096)	(92,989)	-	(2,240)	(42,710)	(141,726)

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(In millions of Korean won)	2009							
	Land	Buildings	Structures	Machinery and equipment	Vehicles	Others	Construction - in-progress	Total
Balance at 2009.1.1	₩ 1,289,230	₩ 3,415,917	₩ 229,676	₩ 9,374,073	₩ 34,606	₩ 549,702	₩ 295,427	₩ 15,188,631
Acquisition	48	841	2	34,937	727	144,991	2,592,880	2,774,426
Disposal	(12,021)	(12,556)	(1,780)	(102,848)	(143)	(59,409)	(348)	(189,105)
Depreciation	-	(150,103)	(16,512)	(2,511,196)	(8,936)	(248,701)	-	(2,935,448)
Impairment	-	-	-	(229)	-	(134)	(873)	(1,236)
Others	189,534	52,159	(63,466)	1,971,999	4,815	78,519	(2,296,268)	(62,708)
Balance at 2009.12.31	₩ 1,466,791	₩ 3,306,258	₩ 147,920	₩ 8,766,736	₩ 31,069	₩ 464,968	₩ 590,818	₩ 14,774,560
Acquisition cost	₩ 1,466,923	₩ 4,977,592	₩ 338,854	₩ 40,256,240	₩ 86,461	₩ 2,041,339	₩ 651,441	₩ 49,818,850
Accumulated depreciation	-	(1,668,667)	(189,607)	(31,376,363)	(55,392)	(1,570,280)	-	(34,860,309)
Accumulated impairment loss	-	-	-	(1,761)	-	(3,855)	-	(5,616)
Customers' contribution to construction costs	(132)	(2,667)	(1,327)	(111,380)	-	(2,236)	(60,623)	(178,365)

As of December 31, 2010, with respect to rental and leasehold contracts, certain land and buildings are pledged for mortgages and leasehold rights, and the maximum amount of receivables is ₩70,704 million (2009: ₩73,392 million).

As of December 31, 2010, the value of land based on the posted price issued by the Korean tax authority amounted to ₩5,412,098 million (2009: ₩5,549,125 million)

10. Intangible Assets

The changes in intangible assets for the years ended December 31, 2010 and 2009, are as follows:

(In millions of Korean won)	2010						
	Goodwill	Industrial rights	Development costs	Software	Frequency usage rights	Other intangible assets	Total
Balance at 2010.1.1	₩ 85,315	₩ 10,471	₩ 227,594	₩ 165,570	₩ 696,488	₩ 94,062	₩ 1,279,500
Acquisition	28,974	523	243,024	62,739	78	23,114	358,452
Disposal	-	-	(13,520)	(4,983)	-	(2,567)	(21,070)
Amortization	(74,677)	(1,836)	(111,650)	(51,958)	(115,650)	(34,189)	(389,960)
Impairment	-	-	-	(1,811)	-	(1,632)	(3,443)
Others	-	(54)	758	839	-	7,844	9,387
Balance at 2010.12.31	₩ 39,612	₩ 9,104	₩ 346,206	₩ 170,396	₩ 580,916	₩ 86,632	₩ 1,232,866

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(In millions of Korean won)	2009						
	Goodwill	Industrial rights	Development costs	Software	Frequency usage rights	Other intangible assets	Total
Balance at 2009.1.1	₩ 228,394	₩ 10,203	₩ 193,793	₩ 106,147	₩ 812,137	₩ 123,564	₩ 1,474,238
Acquisition	-	1,785	140,208	60,401	-	12,721	215,115
Amortization	(137,487)	(1,865)	(102,366)	(45,594)	(115,649)	(23,057)	(426,018)
Impairment	(1,840)	-	(714)	(1,261)	-	(3,927)	(7,742)
Others	(3,752)	348	(3,327)	45,877	-	(15,239)	23,907
Balance at 2009.12.31	₩ 85,315	₩ 10,471	₩ 227,594	₩ 165,570	₩ 696,488	₩ 94,062	₩ 1,279,500

The research and development expense for the years ended December 31, 2010 and 2009, are as follows:

(In millions of Korean won)	2010	2009
Research expense	₩ 268,681	₩ 239,507
Development expense	26,388	23,706
Total	₩ 295,069	₩ 263,213

As a significant expenditure, which is expected to have future economic benefits but is not capitalized in the year incurred because they are not under the Company's control, training expense amounted to ₩31,832 million (2009: ₩23,575 million).

11. Insurance

As of December 31, 2010, the summary of assets covered under the insurance programs with various insurance companies are as follows:

(In millions of Korean won)	Insurance type	Coverage	
		2010	2009
Inventories	Theft and fire	₩ 145,100	₩ 167,129
Buildings	Fire and other	1,326,221	1,347,580
Machinery	Property package and other	551,937	195,454
Vessel(vehicles)	Vessel and other	69,814	63,225
Others ¹	Fire and other	452,492	481,139
Total		₩ 2,545,564	₩ 2,254,527

¹Includes insurance for structures, finance lease receivables, other fixed assets and officers liability.

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12. Government Grants Customers' Contribution.

The changes in government grants and customers' contribution to construction costs which are incurred in acquisition of assets for the years ended December 31, 2010 and 2009, are as follows:

		2010				
<i>(In millions of Korean won)</i>		2010.1.1	Increase	Decrease	Transfer	2010.12.31
Land	₩	132	₩ -	₩ -	₩ -	₩ 132
Buildings		2,667	-	(108)	-	2,559
Structures		1,327	-	(231)	-	1,096
Equipment		111,380	218	(39,718)	21,109	92,989
Others		2,236	28	(1,324)	1,300	2,240
Construction- in-progress		60,623	4,496	-	(22,409)	42,710
Total	₩	178,365	₩ 4,742	₩ (41,381)	₩ -	₩ 141,726

		2009				
<i>(In millions of Korean won)</i>		2009.1.1	Increase	Decrease	Transfer	2009.12.31
Land	₩	132	₩ -	₩ -	₩ -	₩ 132
Buildings		2,188	-	(233)	712	2,667
Structures		1,507	-	(185)	5	1,327
Equipment		119,311	-	(50,238)	42,307	111,380
Others		1,786	-	(1,311)	1,761	2,236
Construction- in-progress		107,675	16,440	(18,707)	(44,785)	60,623
Total	₩	232,599	₩ 16,440	₩ (70,674)	₩ -	₩ 178,365

13. Derivatives

During the years ended December 31, 2010 and 2009, the Company entered into various derivatives contracts with financial institutions. Details of these derivative contracts are as follows:

Type of transaction	Financial institution	Description
Interest rate swaps	Merrill Lynch and 2 others	Exchange fixed interest rate for variable interest rate for a specified period
Currency swaps	Merrill Lynch and 4 others	Exchange foreign currency cash flow for local currency cash flow
Combined interest rate currency swap	Merrill Lynch and 17 others	Exchange foreign currency variable interest rate swaps for local currency fixed interest rate
Currency forward	Kookmin Bank and the other	Exchange a specified currency at the agreed exchange rate at a specified date

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The assets and liabilities relating to outstanding contracts as of December 31, 2010 and 2009, are as follows:

			2010				
<i>(In millions of Korean won and thousands of foreign currencies)</i>			Contract amount	Assets (Current)	Assets (Non-current)	Liabilities (Current)	Liabilities (Non-current)
Interest rate swap	KRW	250,000		₩ 1,213	₩ -	₩ 214	₩ -
	USD	100,000					
Currency swap	USD	223,771		479	34,193	-	6,560
Combined interest rate currency swap	USD	1,460,000		149,415	62,973	-	13,277
	JPY	19,500,000					
Currency forward	USD	16,976		136	-	14	406
Total				₩ 151,243	₩ 97,166	₩ 228	₩ 20,243

			2009				
<i>(In millions of Korean won and thousands of foreign currencies)</i>			Contract amount	Assets (Current)	Assets (Non-current)	Liabilities (Current)	Liabilities (Non-current)
Interest rate swap	KRW	256,000		₩ -	₩ 23	₩ 5,118	₩ 656
	USD	100,000					
Currency swap	USD	220,000		-	47,547	-	3,782
Combined interest rate currency swap	USD	1,410,000		-	247,488	-	-
	JPY	19,500,000					
Currency forward	USD	30,208		288	-	6	1,717
Total				₩ 288	₩ 295,058	₩ 5,124	₩ 6,155

Details of the currency swap and combined interest rate currency swap contracts to which hedge accounting is applied as of December 31, 2010 and 2009, are as follows:

<i>(In millions of Korean won and thousands of foreign currencies)</i>				Assets (Current)		Assets (Non-current)		Liabilities (Non-current)	
	Contract date	Maturity date	Contract amount	2010.12.31	2009.12.31	2010.12.31	2009.12.31	2010.12.31	2009.12.31
Cash flow hedge									
Currency swap ¹	2007.4.4	2012.4.11	USD 150,000	₩ -	₩ -	₩ 34,193	₩ 42,839	₩ -	₩ -
	2008.10.6	2012.4.11	USD 50,000	-	-	-	-	5,930	3,782
	2009.6.20	2034.9.7	USD 20,000	-	-	-	4,708	630	-
Combined interest rate	2008.1.4	2011.1.11	JPY 12,500,000	67,510	-	-	48,908	-	-
	2008.3.20	2011.3.31	USD 50,000	6,220	-	-	7,751	-	-

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currency swap ¹	2008.3.20	2012.3.31	USD 110,000	-	-	12,366	18,233	-	-
	2008.9.2	2013.9.11	USD 200,000	-	-	-	5,988	9,527	-
	2010.4.9	2013.4.9	USD 100,000	-	-	-	-	3,750	-
	2009.6.20	2014.6.24	USD 600,000	-	-	38,443	66,812	-	-
	2009.6.20	2015.7.15	USD 100,000	-	-	12,164	20,172	-	-
	2008.2.25	2011.2.25	USD 175,000	33,735	-	-	37,236	-	-
	2008.4.28	2011.4.28	JPY 7,000,000	29,998	-	-	20,098	-	-
	2008.6.20	2011.6.20	USD 95,000	9,269	-	-	10,522	-	-
	2008.3.12 ²	2010.12.13	USD -	-	-	-	8,785	-	-
	2008.7.2	2011.4.4	USD 30,000	2,683	-	-	2,983	-	-
Sub-total				149,415	-	97,166	295,035	19,837	3,782
Fair value hedge									
Interest rate swap ³	2009.9.1	2011.12.1	KRW 180,000	1,213	-	-	23	-	-
Total				₩ 150,628	₩ -	₩ 97,166	₩ 295,058	₩ 19,837	₩ 3,782

¹ In applying the cash flow hedge accounting, the Company hedges its exposures to cash flow fluctuation until September 7, 2034. Approximately ₩6,374 million of net derivative loss included in accumulated other comprehensive income at December 31, 2010, is expected to be recognized in current operations within 12 months from that date.

² The remaining principal of the derivative is repaid at maturity during the year ended December 31, 2010.

³ Above interest rate swap contract is to hedge the risk of variability in future fair value from the bond and, accordingly, the loss on valuation of the swap contract amounting to ₩1,190 million is included in operations for the year ended December 31, 2010.

The valuation gains and losses on the derivatives contracts for years ended December 31, 2010 and 2009, are as follows:

(In millions of Korean won)		2010				
		For trading		For hedging		
		Valuation gain ¹	Valuation loss	Valuation gain	Valuation loss	Accumulated other comprehensive income ²
Interest rate swap	₩	4,999	₩ -	₩ 1,190	₩ -	₩ -
Currency swap		-	-	-	6,322	(11,942)
Combined interest rate currency swap		-	-	33,595	41,385	(38,476)
Currency forward		1,447	14	-	-	-
Total	₩	6,446	₩ 14	₩ 34,785	₩ 47,707	₩ (50,418)

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(In millions of Korean won)	2009				
	For trading		For hedging		
	Valuation gain ¹	Valuation loss	Valuation gain	Valuation loss	Accumulated other comprehensive income ²
Interest rate swap	₩ 6,883	₩ -	₩ 23	₩ -	₩ -
Currency swap	-	9,574	250	17,005	(3,809)
Combined interest rate currency swap	6,178	75,401	4,605	89,282	(23,095)
Currency forward	3,317	6	-	-	-
Put option	223	-	-	-	-
Total	₩ 16,601	₩ 84,981	₩ 4,878	₩ 106,287	₩ (26,904)

¹ In accordance with SKAS No. 24, *Preparation and Presentation of Financial Statements II (Financial Industry)*, the gain on valuation of currency forwards amounting to ₩1,311 million for the year ended December 31, 2010, and the gain on valuation of currency forwards amounting to ₩3,029 million and the gain on valuation of interest rate swap amounting to ₩807 million for the year ended December 31, 2009, recorded by KT Capital are classified as operating income.

² The amounts directly reflected in equity before adjustments of deferred income tax.

14. Bonds payable and long-term borrowings

Bonds Payable

(In millions of Korean won and thousands of foreign currencies)

Type	Maturity	Annual Interest Rates	2010.12.31		2009.12.31	
			Foreign Currency	Korean Won	Foreign Currency	Korean Won
MTNP notes ¹	2014.6.24	5.88%	USD 600,000	₩683,340	USD 600,000	₩700,560
MTNP notes ¹	2034.9.7	6.50%	USD 100,000	113,890	USD 100,000	116,760
MTNP notes ¹	2015.7.15	4.88%	USD 400,000	455,560	USD 400,000	467,040
MTNP notes ¹	2016.5.3	5.88%	USD 200,000	227,780	USD 200,000	233,520
Euro bonds	2012.4.11	5.13%	USD 200,000	227,780	USD 200,000	233,520
FR notes ²	2013.9.11	Libor(3M) +1.5%	USD 200,000	227,780	USD 200,000	233,520
FR notes ²	2013.4.9	Libor(3M) +0.47%	USD 100,000	113,890	-	-
The 132nd Public bond	2011.2.9	7.68%	-	70,000	-	70,000
The 159th Public bond	2013.10.27	5.39%	-	300,000	-	300,000
The 160th Public bond	2010.11.24	5.45%	-	-	-	200,000
The 161st Public bond	2010.12.23	5.61%	-	-	-	230,000
The 162nd Public bond	2011.2.27	5.52%	-	320,000	-	320,000
The 163rd Public bond	2014.3.30	5.51%	-	170,000	-	170,000
The 164th Public bond	2011.6.21	5.22%	-	260,000	-	260,000
The 165-1st Public bond	2011.8.26	4.22%	-	130,000	-	130,000

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The 165-2nd Public bond	2014.8.26	4.44%	-	140,000	-	140,000
The 166-1st Public bond	2010.3.21	4.37%	-	-	-	220,000
The 166-2nd Public bond	2012.3.21	4.57%	-	100,000	-	100,000
The 167-1st Public bond	2012.4.20	4.59%	-	100,000	-	100,000
The 167-2nd Public bond	2015.4.20	4.84%	-	100,000	-	100,000
The 168-1st Public bond	2012.6.21	4.43%	-	240,000	-	240,000
The 168-2nd Public bond	2015.6.21	4.66%	-	90,000	-	90,000
The 169th Public bond	2012.4.3	5.01%	-	140,000	-	140,000
The 170th Public bond ²	2011.1.11	Tibor(3M) +0.6%	JPY12,500,000	174,635	JPY12,500,000	157,853
The 171st Public bond	2013.2.28	5.41%	-	100,000	-	100,000
The 172-1st Public bond ²	2011.3.31	Libor(3M) +1.5%	USD 50,000	56,945	USD 50,000	58,380
The 172-2nd Public bond ²	2012.3.31	Libor(3M) +1.6%	USD 110,000	125,279	USD 110,000	128,436
The 173-1st Public bond	2013.8.6	6.49%	-	100,000	-	100,000
The 173-2nd Public bond	2018.8.6	6.62%	-	100,000	-	100,000
The 174-1st Public bond	2010.12.19	5.34%	-	-	-	100,000
The 174-2nd Public bond	2011.12.19	5.56%	-	130,000	-	130,000
The 175-1st Public bond	2012.2.27	4.80%	-	40,000	-	40,000
The 175-2nd Public bond	2014.2.27	5.47%	-	360,000	-	360,000
The 176-1st Public bond	2012.5.28	4.37%	-	100,000	-	100,000
The 176-2nd Public bond	2014.5.28	5.06%	-	170,000	-	170,000
The 176-3rd Public bond	2016.5.28	5.24%	-	260,000	-	260,000
The 177-1st Public bond	2013.2.9	4.86%	-	240,000	-	-
The 177-2nd Public bond	2015.2.9	5.26%	-	190,000	-	-
The 177-3rd Public bond	2017.2.9	5.38%	-	170,000	-	-
The 47-2nd Public bond	2011.7.12	5.32%	-	70,000	-	70,000
The 48th Public bond	2010.2.15	5.31%	-	-	-	200,000
The 49th Public bond ²	2011.2.25	Libor(3M) +1.5%	USD 175,000	199,308	USD 175,000	204,330
The 50th Public bond ²	2011.4.28	Tibor(3M) +1.6%	JPY 7,000,000	97,796	JPY 7,000,000	88,397
The 51-1st Public bond ²	2011.6.20	Libor(3M) +1.6%	USD 95,000	108,196	USD 95,000	110,922
The 51-2nd Public bond	2013.6.20	6.41%	-	70,000	-	70,000
The 52-1st Private bond	2011.8.4	6.20%	-	100,000	-	100,000
The 52-2nd Public bond	2013.8.4	6.64%	-	100,000	-	100,000
The 53-1st Public bond	2010.12.1	8.23%	-	-	-	20,000
The 53-2nd Public bond	2011.12.1	8.36%	-	181,212	-	180,023
Public bond	2010. 4.17	5.29%	-	-	-	10,000
Public bond	2011.7.24	6.82%	-	5,000	-	5,000
Public bond	2013.4.19	5.15%	-	10,000	-	-
Public bond(19-2nd)	2010.5.10	4.69%	-	-	-	10,000
The 10th Public bond	2010.6.18	5.70%	-	-	-	40,000
The 11th Private bond	2010.12.6	6.85%	-	-	-	20,000

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The 12th Public bond	2011.5.23	6.39%	-	20,000	-	20,000
The 13-2nd Public bond	2010.4.2	8.30%	-	-	-	10,000
The 14th Public bond	2012.1.8	8.90%	-	30,000	-	30,000
The 15th Public bond	2011.10.26	5.70%	-	30,000	-	30,000
The 16th Public bond	2012.11.27	5.85%	-	30,000	-	30,000
The 17-1st Public bond	2012.3.11	5.20%	-	10,000	-	-
The 18-1st Public bond	2012.4.9	4.50%	-	10,000	-	-
The 18-2nd Public bond	2013.4.9	5.04%	-	70,000	-	-
The 17-2nd Public bond	2013.3.11	5.62%	-	30,000	-	-
The 1-2nd Public bond	2011.2.6	8.74%	-	20,000	-	-
The 3rd Public bond	2012.6.22	6.89%	-	100,000	-	-
The 1th Private bond	2010.3.16	5.80%	-	-	-	30,000
The 2nd Private bond	2010.4.16	5.94%	-	-	-	20,000
The 4th Public bond	2010.5.30	5.70%	-	-	-	40,000
The 5th Private bond	2010.6.29	5.67%	-	-	-	20,000
The 6-2nd Public bond	2010.8.3	5.72%	-	-	-	30,000
The 7-2nd Public bond	2010.8.31	6.05%	-	-	-	20,000
The 8th Private bond	2010.9.28	6.26%	-	-	-	30,000
The 9-2nd Public bond	2010.10.18	6.44%	-	-	-	20,000
The 11th Public bond	2010.12.27	CD(91D) +1.39%	-	-	-	20,000
The 13-1st Public bond	2010.2.21	6.33%	-	-	-	30,000
The 13-2nd Public bond	2011.2.21	6.48%	-	30,000	-	30,000
The 14-1st Public bond	2010.3.28	6.37%	-	-	-	10,000
The 14-2nd Public bond	2011.3.28	6.47%	-	10,000	-	10,000
The 15th Private bond	2010.4.21	MOR(3M) +1.28%	-	-	-	20,000
The 16-1st Public bond	2010.1.30	6.33%	-	-	-	60,000
The 16-2nd Public bond	2011.4.30	6.46%	-	10,000	-	10,000
The 17-3rd Public bond	2013.5.30	7.14%	-	50,000	-	50,000
The 18-2nd Public bond	2010.6.23	7.12%	-	-	-	40,000
The 18-3rd Public bond	2011.6.23	7.22%	-	20,000	-	20,000
The 18-4th Public bond	2013.6.23	7.55%	-	10,000	-	10,000
The 19-2nd Public bond	2010.3.11	7.80%	-	-	-	10,000
The 19-3rd Public bond	2010.9.11	7.93%	-	-	-	20,000
The 19-4th Public bond	2010.9.11	CD(91D) +1.95%	-	-	-	10,000
The 22-1st Public bond	2010.7.23	8.70%	-	-	-	10,000
The 22-2nd Public bond	2011.1.23	8.75%	-	35,000	-	35,000
The 22-3rd Public bond	2012.1.23	8.95%	-	25,000	-	25,000
The 23th Public bond	2011.5.29	5.35%	-	20,000	-	20,000
The 24th Public bond	2012.6.29	6.28%	-	30,000	-	30,000
The 25-1st Public bond	2011.7.30	6.20%	-	20,000	-	20,000
The 25-2nd Public bond	2012.7.30	5.75%	-	25,000	-	25,000
The 26th Public bond	2012.8.27	6.33%	-	50,000	-	50,000
The 27th Private bond	2012.9.4	6.33%	-	10,000	-	10,000

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The 28-1st Public bond	2011.11.12	5.70%	-	20,000	-	20,000
The 28-2nd Public bond	2012.11.12	6.08%	-	30,000	-	30,000
The 29-1st Public bond	2011.11.30	5.60%	-	10,000	-	10,000
The 29-2nd Public bond	2012.11.30	6.00%	-	40,000	-	40,000
The 30-1st Public bond	2011.6.23	5.30%	-	10,000	-	10,000
The 30-2nd Public bond	2011.12.23	5.60%	-	10,000	-	10,000
The 30-3rd Public bond	2012.12.23	5.95%	-	10,000	-	10,000
The 31th Public bond	2012.12.31	5.98%	-	10,000	-	10,000
The 32-1st Public bond	2012.1.22	5.65%	-	10,000	-	-
The 32-2nd Public bond	2013.1.22	5.95%	-	50,000	-	-
The 32-3rd Public bond	2015.1.22	6.70%	-	30,000	-	-
The 33th Public bond	2015.2.11	6.45%	-	50,000	-	-
The 34-1st Public bond	2012.2.26	5.30%	-	30,000	-	-
The 34-2nd Public bond	2013.2.26	5.60%	-	10,000	-	-
The 35-1st Public bond	2012.3.22	4.65%	-	20,000	-	-
The 35-2nd Public bond	2013.3.22	5.05%	-	30,000	-	-
The 36-1st Public bond ²	2012.4.30	CD(91D) +1.09%	-	20,000	-	-
The 36-2nd Public bond	2013.4.30	4.75%	-	30,000	-	-
The 36-3rd Public bond	2015.4.30	5.65%	-	20,000	-	-
The 37-1st Public bond	2011.12.30	4.85%	-	10,000	-	-
The 37-2nd Public bond	2012.6.30	5.13%	-	10,000	-	-
The 37-3rd Public bond	2013.6.30	5.45%	-	20,000	-	-
The 37-4th Public bond	2014.6.30	5.85%	-	10,000	-	-
The 38-1st Public bond	2012.1.19	4.80%	-	30,000	-	-
The 38-2nd Public bond	2012.7.19	5.08%	-	30,000	-	-
The 38-3rd Public bond	2014.7.19	5.85%	-	10,000	-	-
The 39th Public bond	2013.7.30	5.35%	-	30,000	-	-
The 40-1st Public bond	2012.5.10	4.69%	-	40,000	-	-
The 40-2nd Public bond	2013.8.10	5.33%	-	20,000	-	-
The 40-3rd Public bond	2015.8.10	5.95%	-	20,000	-	-
The 41-1st Public bond	2012.9.17	4.22%	-	30,000	-	-
The 41-2nd Public bond	2013.9.17	4.63%	-	20,000	-	-
The 41-3rd Public bond	2014.9.17	5.10%	-	10,000	-	-
The 42-1st Public bond	2013.11.22	4.62%	-	30,000	-	-
The 42-2nd Public bond	2014.11.23	5.10%	-	20,000	-	-
The 42-3rd Public bond	2015.11.24	5.44%	-	10,000	-	-
The 1st Private bond	2010.3.24	BD+3.95%	-	-	-	40,000
Total				8,953,391		8,913,261
Less: Current portion				(2,178,092)		(1,540,000)
Less: Discount on bonds				(29,626)		(35,862)
Net				<u>₩ 6,745,673</u>		<u>₩ 7,337,399</u>

¹ As of December 31, 2010, the Controlling Company has issued notes in the amount of USD 1,300 million with fixed interest rates under Medium Term Note Program ("MTNP") registered in the Singapore Stock

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Exchange, which allows issuance of notes of up to USD 2,000 million, with the unused balance under the program amounting to USD 700 million.

² The Libor (3M), Tibor (3M) and CD(91D) are approximately 0.30%, 0.34% and 2.80%, respectively, as of December 31, 2010.

Long-term Borrowings

(In millions of Korean won and thousands of foreign currencies)

Type	Annual Interest Rates	2010.12.31				2009.12.31			
		Foreign Currency		Korean Won		Foreign Currency		Korean Won	
Informatization Promotion Fund ¹	3.52%~4.29%	₩	-	₩	31,371	₩	-	₩	31,518
Inter-Korean Cooperation Fund ¹	2.00%		-		6,415		-		6,415
Facility and working capital loans	4.00%~8.43%		-		357,609		-		67,411
General purpose loans	4.06%~5.80%		-		185,163		-		65,815
Commercial papers	2.9%~6.60%		-		85,000		-		50,000
Facility loans in foreign currency	LIBOR(3M)	USD	30,000		34,167	USD	70,000		81,732
	+2.0%								
	LIBOR+1.70%	USD	16,000		18,222	USD	22,400		26,154
Other long-term borrowings in foreign currency	USD								
	LIBOR(3M)	USD	11,000		12,528	USD	15,000		17,514
	+0.99%								
	LIBOR+3.5%		-		-	RUB	29,380		1,131
	16.50%	UZS	2,259		1,581	UZS	2,047		1,577
Total					732,056				349,267
Less: Current portion					(259,042)				(150,340)
Present value discounts					-				(654)
Net					₩ 473,014				₩ 198,273

¹ The above Informatization Promotion Funds are repayable in installments over three years after a two-year grace period, while Inter-Korean Cooperation Fund is repayable in installments over 13 years after a seven-year grace period.

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Repayment Schedule

Repayment schedule of the Company's bonds and long-term borrowings as of December 31, 2010, is as follows:

(In millions of Korean won)

Year ending December 31	Bonds			Borrowings			Total
	In local currency	In foreign currency	Sub- total	Borrowings in local currency	Borrowings in foreign currency	Sub- total	
2011	₩ 1,541,213	₩ 636,879	₩ 2,178,092	₩ 205,058	₩ 53,984	₩ 259,042	₩ 2,437,134
2012	1,350,000	353,059	1,703,059	210,830	8,871	219,701	1,922,760
2013	1,320,000	341,670	1,661,670	237,008	3,643	240,651	1,902,321
2014	890,000	683,340	1,573,340	5,161	-	5,161	1,578,501
Thereafter	1,040,000	797,230	1,837,230	7,501	-	7,501	1,844,731
Total	₩ 6,141,213	₩ 2,812,178	₩ 8,953,391	₩ 665,558	₩ 66,498	₩ 732,056	₩ 9,685,447

15. Accrued Severance Benefits

Changes in accrued severance benefits for the year ended December 31, 2010, are as follows:

(In millions of Korean won)

	2010
Balance at 2010.1.1	₩ 1,488,086
Decrease	(490,055)
Provision for severance benefits	233,111
Others	(137)
Balance at 2010.12.31	1,231,005
Less : Severance insurance deposits	(870,928)
Less : Cumulative deposits to the National Pension Fund	(49)
Total	₩ 360,028

The estimated value of severance benefits for all employees, as of December 31, 2010, amounts to ₩1,231,005 million which are fully recognized as accrued severance benefits. In addition, as of December 31, 2010, accrued severance benefits are funded at approximately 70.75% through a severance insurance plan and defined benefit severance pension plan with Samsung Life Insurance.

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16. Provisions

Changes in provisions for the years ended December 31, 2010 and 2009, are as follows:

(In millions of Korean won)	2010						
	2010.1.1	Increase	Transfer	Decrease Usage	Reversal	Others	2010.12.31
Current portion							
Litigation ¹	₩ 17,010	₩ 9,630	₩ -	₩ (2,116)	₩ (964)	₩ -	₩ 23,560
KT members points ²	546	-	-	-	(546)	-	-
KT points ³	3,591	-	-	(1,639)	-	-	1,952
Call bonus points ⁴	7,271	-	12,990	(11,942)	-	-	8,319
Olleh club points ⁵	-	-	27,013	(7,912)	-	-	19,101
Sales warranty reserve	6,245	5,684	-	(6,261)	-	-	5,668
Others ⁷	5,178	44,637	(474)	(12,763)	(7,006)	1,009	30,581
Sub-total	39,841	59,951	39,529	(42,633)	(8,516)	1,009	89,181
Non-current portion							
KT points ³	2,457	-	-	-	(1,016)	-	1,441
Call bonus points ⁴	6,438	14,711	(12,990)	-	-	-	8,159
Olleh club points ⁵	-	29,063	(27,013)	-	-	-	2,050
Asset retirement obligation ⁶	93,211	22,759	474	(6,936)	(8,353)	-	101,155
Others ⁷	1,470	656	-	(47)	(431)	-	1,648
Sub-total	103,576	67,189	(39,529)	(6,983)	(9,800)	-	114,453
Total	₩ 143,417	₩ 127,140	₩ -	₩(49,616)	₩(18,316)	₩ 1,009	₩ 203,634

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	2009												2010.12.31
(In millions of Korean won)	2009.1.1		Increase		Transfer		Decrease Usage		Reversal		Others		
Current portion													
Litigation ¹	₩	19,572	₩	2,204	₩	-	₩	(4,766)	₩	-	₩	-	₩ 17,010
KT members points ²		681		-		-		(110)		(25)		-	546
KT points ³		4,774		-		4,642		(5,825)		-		-	3,591
Call bonus points ⁴		5,504		-		4,999		(3,232)		-		-	7,271
Sales warranty reserve		5,299		9,285		-		(8,339)		-		-	6,245
Others ⁷		2,985		5,033		-		(2,745)		(719)		624	5,178
Sub-total		38,815		16,522		9,641		(25,017)		(744)		624	39,841
Non-current portion													
KT points ³		7,099		-		(4,642)		-		-		-	2,457
Call bonus points ⁴		5,109		7,935		(4,999)		(1,607)		-		-	6,438
Asset retirement obligation ⁶		71,533		13,997		-		(6,188)		(3,935)		17,804	93,211
Others ⁷		1,405		374		-		-		(309)		-	1,470
Sub-total		85,146		22,306		(9,641)		(7,795)		(4,244)		17,804	103,576
Total	₩	123,961	₩	38,828	₩	-	₩	(32,812)	₩	(4,988)	₩	18,428	₩ 143,417

¹ The amount recognized as litigation provision represents the estimate of payments required to settle the obligation.

² The Company recorded provisions for the KT members points with which VIP customers of the fixed-line or mobile telephone service are entitled to receive certain goods and other benefits for up to ₩25,000 per person.

³ The amount recognized as call bonus points represents the estimate of payments for call bonus points which are provided to fixed-line customers based on the usage of the services. Once certain criteria are met, customers are entitled to receive certain goods and other benefits from the Company. Such provision is reviewed at each reporting date and adjusted to reflect the current best estimates based on changes in circumstances, or an acquisition of new information or additional experience on the usage rate, expiration of points and others.

⁴ The Company recorded provision for the Let's 010 (KT-PCS) call bonus points with which its PCS subscribers are entitled to receive certain goods and other benefits from the Company.

⁵ The Company recognized estimated expenses for the integrated mileage program of wireless membership, wired and wireless mileage, Show point service and Shocking package, which commenced in June 2010.

⁶ When the Company is responsible for restoration of leased facility after termination of the lease contract, the present value of expected future expenditure for the restoration is recorded as a liability.

⁷ Points are granted to customers, employees and the customers of business partners. The Company accounts for this points as welfare expense and others based on nature of provision.

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17. Lease

The Company as Lessee

Property and equipment acquired through lease arrangements with GE Capital and others as of December 31, 2010 are as follows:

Finance Lease

Details of capital lease assets as of December 31, 2010, are as follow:

(In millions of Korean won)

	2010
Acquisition costs	₩ 22,332
Accumulated depreciation	(11,342)
Net balance	₩ 10,990

The related depreciation amounted to ₩ 2,029 million for the year ended December 31, 2010.

Details of future minimum lease payments as of December 31, 2010, under capital lease contracts are summarized below:

(In millions of Korean won)

	Minimum lease payments	Present values
Within one year	₩ 6,387	₩ 5,282
From one year to five years	16,372	14,527
Total	₩ 22,759	₩ 19,809

Operating Lease

Details of future minimum lease payments as of December 31, 2010 and under operating lease contracts are summarized below:

(In millions of Korean won)

	2010
Within one year	₩ 4,924
From one year to five years	2,670
Total	₩ 7,594

Operating lease expenses incurred for the year ended December 31, 2010 amounted to ₩28,278 million.

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The Company as Lessor

Finance Lease

Details of capital lease assets as of December 31, 2010, are as follow:

<i>(In millions of Korean won)</i>	Minimum lease payments	Unguaranteed residual value	Gross investment in the lease	Unaccrued interest	Net investment in the lease
Within one year	₩ 299,364	₩ 11,903	₩ 311,267	₩ 68,111	₩ 243,156
From one year to five years	539,092	21,135	560,227	120,216	440,011
Thereafter	20,644	-	20,644	1,552	19,092
Balance at 2009.12.31	₩ 859,100	₩ 33,038	₩ 892,138	₩ 189,879	₩ 702,259

Bad debts allowances provided for doubtful minimum lease receivables as of December 31, 2010, are as follow:

(In millions of Korean won)

	2010
Within one year	₩ 2,742
From one year to five years	5,025
Thereafter	230
Total	₩ 7,997

Operating Lease

Annual future lease receipts from operating lease agreements as of December 31, 2010, are as follows:

(In millions of Korean won)

	Undiscounted amounts	Present values
Within one year	₩ 13,676	₩ 11,879
From one year to five years	31,888	28,937
Total	₩ 45,564	₩ 40,816

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18. Commitments and Contingencies

As of December 31, 2010, major commitments with local financial institutions, are as follows:

<i>(In millions of Korean won and thousands of foreign currencies)</i>	Financial Institution	Limit	
Bank overdraft	Kookmin Bank and othes	₩	1,435,000
Commercial papers	Korea Exchange Bank		100,000
Loan on information and communications fund	Kookmin Bank and others		40,567
Collateralized loan on accounts receivable –trade	Kookmin Bank and others		418,000
Collection for foreign currency denominated checks	Korea Exchange Bank	USD	1,000
Plus commercial papers	IBK Bank	₩	150,000
			348,000
Letters of credit	Shinhan Bank and others	USD	13,000
		₩	230,000
Others	Shinhan Bank and others	USD	87,005

As of December 31, 2010, guarantees received from financial institutions, are as follows:

<i>(In millions of Korean won and thousands of foreign currencies)</i>	Financial Institution	Limit		Used Amount	
Performance guarantee for construction	Seoul Guarantee Insurance	₩	76,313	₩	-
		USD	4,518	USD	4,518
	Export-Import Bank of Korea	SAR	735	SAR	735
Performance guarantee		DZD	25,863	DZD	25,863
	Seoul Guarantee Insurance	₩	15,578	₩	15,578
	Korea Software Financial Cooperative and others ¹		150,000		76,220
Bid guarantee	Seoul Guarantee Insurance		30,248		56,628
					30,248
	Kookmin Bank	USD	85,652	USD	5,652
Bonds payable in	Korea Exchange Bank	USD	5,000	USD	2,191
foreign currency guarantee	Shinhan Bank	USD	27,512	USD	21,502
	HSBC	USD	80,000	USD	-
		USD	2,925	USD	2,925
Advances received guarantee	Export-Import Bank of Korea	DZD	77,589	DZD	77,589
	Shinhan Bank	₩	26,398	₩	26,398
General guarantee	Korea Exchange Bank		3,600		-
Guarantee for import letter of credit	Korea Exchange Bank	USD	5,000	USD	-
Others	Industrial Bank of Korea	USD	400	USD	400

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¹ The maturities of guarantee contracts have lapsed. However, due to the two-year statute of limitations the Company still receives guarantees amounting to ₩159,903 million from Korea Software Financial Cooperative as of December 31, 2010.

As of December 31, 2010, guarantees provided by the Company for the third parties are as follows:

<i>(In millions of Korean won)</i>	Creditor	Limit
Eun-haeng 1-area urban environment Improving project union	Kookmin Bank	₩ 2,600
General guarantee	KEPCO Corp. and others	193
Defective guarantee	Samsung C&T Corporation and othes	19
Performance guarantee	National Federations of Fisheries Cooperative and others	41
Permission guarantee and others	Seobu Regional Forest Management Office and others	59
Other Project Financing	NH Investment & Securities Co.Ltd and others	35,169
Employee Stock Ownership	Hana Bank	154

As of December 31, 2010, the Company has filed 127 lawsuits, with an aggregate amount of ₩220,300 million. As of December 31, 2010, litigation provision in relation to the potential loss amounted to ₩23,560 million and is recorded as liabilities. The final outcome of these cases cannot yet be determined as of the report date.

As of December 31, 2010, the Company's investment in Smart Channel Co., Ltd.(formerly Mediapuff Plus) is pledged as collateral for the investee's borrowings.

As of December 31, 2010, KT Capital has an agreement with construction developers to provide a loan covering up to ₩38,000 million when the construction developers cannot redeem the project financing loan for construction at a maturity date due to the unsold apartments. Under the agreement, KT Capital has rights over the unsold apartments as collateral.

As of December 31, 2010, KT Rental media, one of the subsidiaries, provided two blank promissory note to several financial institutions as collaterals for the performance guarantee.

In accordance with the debt covenant between KT Rental and the creditor group consisting of Korea Development Bank and National Federation of Fisheries Coperatives, KT Rental should maintain its ratio of net borrowings to EBITA less than four as of each fiscal year end and report the calculation details of this ratio to an agent bank within 90 days from each fiscal year end. In case, KT Rental can not fulfill this condition, the creditors group is entitled to demand early repayment.

As of December 31, 2010, KT Music recorded accrued expenses of ₩1,124 million as it is probable that Fair Trade Committee will impose the penalty due to price fixing among the on-line music service providers.

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As of December 31, 2010, Telecop Service Co., Ltd. and KT Linkus Co., Ltd. have the joint responsibility to pay for the liabilities that KT Linkus Co., Ltd. incurred before its spin-off. Also, KTR Co., Ltd. and KT Rental Co., Ltd. have the joint responsibility to pay for the liabilities that KT Rental Co., Ltd. incurred before its spin-off.

19. Assets and Liabilities denominated in Foreign Currencies

Major assets and liabilities denominated in foreign currencies as of December 31, 2010 and 2009, are summarized as follows:

(In millions of Korean won and thousands of foreign currencies)	2010.12.31				2009.12.31			
	Foreign Currencies		Korean Won		Foreign Currencies		Korean Won	
Cash and cash equivalents	USD	7,997	₩	9,108	USD	24,013	₩	28,038
	JPY	6,271		93	JPY	702		9
	EUR	-		-	EUR	65		110
	GBP	-		-	GBP	10		19
Short-term investment assets	USD	15,327		17,456	USD	15,327		17,896
	USD	132,658		151,084	USD	150,281		175,468
	JPY	36,900		516	JPY	78,500		991
Accounts receivable	SDR	5,721		10,098	SDR	15,225		27,767
	EUR	237		359	EUR	211		353
	AUD	-		-	AUD	13		14
Loans receivable	USD	23,538		26,808	USD	35,769		41,764
Accounts receivable	USD	390		444	USD	438		512
Guarantee deposits paid	USD	-		-	USD	557		650
	USD	103,757		118,168	USD	119,636		139,687
	JPY	240		3	JPY	9,885		125
Accounts payable	SDR	4,256		7,512	SDR	8,566		16,841
	EUR	153		232	EUR	103		172
	USD	2,483		2,827	USD	125		146
	JPY	238		3	JPY	1,653		21
Other accounts payable	GBP	44		77	GBP	51		96
	EUR	113		170	EUR	-		-
	KWD	-		-	KWD	288		483
Bonds (par value)	USD	2,230,000		2,539,747	USD	2,130,000		2,486,988
	JPY	19,500,000		272,431	JPY	19,500,000		246,250
	USD	61,713		70,355	USD	114,683		133,904
Long-term borrowings	JPY	17,314		242	JPY	38,645		488
	EUR	116		175	EUR	-		-
Withholdings	USD	-		-	USD	728		850
	USD	330		376	USD	350		409
Accrued expenses	EUR	39		59	EUR	15		25

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Deposits received	USD	644	733	USD	14	16
Others	USD	1,018	1,159	USD	-	-

As of December 31, 2010, the Company recognized ₩65,793 million (2009: ₩240,925 million) and ₩31,871 million (2009: ₩17,893 million) of foreign currency translation gain and loss as non-operating income and expense, respectively.

20. Common Stock

As of December 31, 2010, the Controlling Company's number of authorized shares is one billion, and the details of common stock are as follows:

	2010.12.31			2009.12.31		
	Number of outstanding shares	Par value per share (Korean won)	Common stock (In millions of Korean won)	Number of outstanding shares	Par value per share (Korean won)	Common stock (In millions of Korean won)
Common stock ¹	261,111,808	₩ 5,000	₩ 1,564,499	261,111,808	₩ 5,000	₩ 1,564,499

¹ The Controlling Company retired 51,787,959 treasury shares against retained earnings. Therefore, the common stock amount differs from the amount resulting from multiplying the number of shares issued by ₩5,000 par value per share of common stock.

21. Treasury Stock

The details in treasury stock owned by the Controlling Company as of December 31, 2010 and 2009, are as follows:

	2010.12.31	2009.12.31
Number of shares	17,895,964	17,915,340
Amounts (In millions of Korean won)	₩ 955,083	₩ 956,159

Treasury stock is expected to be used for the stock compensation for the Company's directors and employees and other purposes.

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22. Share-Based Payments

The Company has granted stock options to its executive officers and directors as of December 31, 2010, in accordance with the stock option plan approved by its board of directors, details of which are as follows:

	KT Co.		KT Hitel	
	4th grant 2005.2.4	KTF-4th ¹ 2005.3.4	1st grant 2010.8.27	2nd grant 2010.10.14
Grant date		Former		
Grantee	Former executives	executives and former outside directors	Former executives	Former executives
Number of basic allocated shares upon grant	50,800	92,637	165,923	140,741
Number of additional shares related to business performance upon grant	20,000	-	-	-
Number of shares expected to be exercised upon grant	60,792	92,637	165,923	140,741
Number of settled or forfeited shares	10,800	13,437	-	-
Number of expired shares as of December 31, 2010	-	-	-	-
Number of allocated shares as of December 31, 2010	40,000	79,200	165,923	140,741
Number of additional shares related to business performance as of December 31, 2010	3,153	-	-	-
Number of shares expected to be exercised	43,153	79,200	165,923	140,741
Fair value per share (in Korean won)	₩ 12,322	₩ 4,328	₩ 3,435	₩ 3,332
Total compensation cost (in millions of Korean won)	₩ 531	₩ 343	₩ 570	₩ 469
Exercise price per share	₩ 54,600	₩ 42,684	₩ 6,750	₩ 8,060
Exercise period	2007.02.05~ 2012.02.04	2007.03.05~ 2012.03.04	2012.08.27~ 2015.08.26	2012.10.14~ 2015.10.13
Valuation method	Fair value method	Fair value method	Fair value method	Fair value method

¹ The stock options granted to the directors, officers or employees of KTF prior to the merger were converted into stock options on June 1, 2009, granting the rights to purchase the stock of KT based on the merger ratio.

Upon exercise, the Company can elect one of the following settlement methods: issuance of new shares, issuance of treasury stock or cash settlement, subject to certain circumstances.

The stock of KTH is a cash settlement type option.

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The Company adopted the fair value method to measure compensation costs based on the various valuation assumptions and methods, which are as follows:

	KT Co.		KT Hitel	
	4th grant	KTF-4th ¹	1st grant	2nd grant
Risk free interest rate	4.43%	2.78%	3.38%	3.38%
Expected duration(year)	4.5 ~ 5.5	1.5	3.5	3.5
Expected volatility	33.41%~42.13%	35.03%	59.04%	59.04%
Expected dividend yield ratio	5.86%	3.54%	0.00%	0.00%

¹ The compensation costs for the stock options granted to the directors, officers or employees of KTF were recalculated considering risk-free rate, expected duration and other on the date of the merger.

Of the total compensation costs calculated using the fair value method, the compensation costs recognized for the year ended December 31, 2010, are as follows:

(In millions of Korean won)	KT Co.		KT Hitel		Total
	4th grant	KTF-4th	1st grant	2nd grant	
Total compensation costs before adjustment	₩ 749	₩ 343	₩ 689	₩ 525	₩ 2,306
Total compensation costs cancelled	(217)	-	-	-	(217)
Total compensation costs after adjustment	532	343	689	525	2,089
Compensation costs recognized in prior periods	532	343	-	-	875
Compensation costs recognized in the current period	-	-	119	56	175
Compensation costs to be recognized after the current period	-	-	570	469	1,039

Other share-based payments as of December 31, 2010, are as follows:

	4th grant
Grant date	2010.4.29
Grantee	CEOs, inside directors, outside directors, executives
Estimated number of shares granted	142,436 shares
Estimated number of shares granted	142,436 shares
	Service condition: 1 year
Vesting conditions	Non-market performance condition: achievement of performance
Fair value per option (in Korean won)	₩47,700
Total compensation costs (in Korean won)	₩6,794 million
Estimated exercise date (exercise date)	During 2011
Valuation method	Fair value method

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Above compensation costs were calculated based on the fair value method and were charged to current operations, as follows:

<i>(In millions of Korean won)</i>	4th grant	
Total compensation costs	₩	6,794
Compensation costs recognized in prior periods		-
Compensation costs recognized in the current period		6,794
Compensation costs to be recognized after the current period		-

23. Retained Earnings

The Commercial Code of the Republic of Korea requires the Controlling Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock with the approval of the Controlling Company's Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the Controlling Company's majority shareholders.

The Controlling Company appropriates a certain portion of retained earnings, pursuant to a shareholder resolution, as voluntary reserves. These reserves may be reversed and transferred to unappropriated retained earnings through a resolution of shareholders, and may be distributed as dividends after the reversal.

24. Operating Revenues

Operating revenues for the years ended December 31, 2010 and 2009, are as follows:

<i>(In millions of Korean won)</i>	2010		2009	
Internet	₩	2,567,001	₩	2,448,607
Data communication		1,309,010		1,313,936
Fixed-line telephone		4,269,782		4,696,980
PCS		7,083,345		6,646,389
Goods sold ¹		4,395,230		3,396,886
Other operating revenues ²		1,706,945		1,141,014
Operating revenues	₩	21,331,313	₩	19,643,812

¹ Goods sold represent revenue from the sale of handsets and others.

² Revenues from the system integration and real estate are included.

Details of construction contracts, related to the other operating revenue, as of December 31, 2010, are as follows:

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(In millions of Korean
won and us dollars in
thousands)

2010

	Beginning contract balance	Increase	Change in contracts	Recognized as revenue	Ending contract balance
Bugae-dong, Incheon	₩ 4,335	₩ -	₩ -	₩ (4,335)	₩ -
Sungsu-dong, Seoul (Factory building)	18,714	-	-	(18,714)	-
Garak-dong, Seoul (Office building)	40,733	-	-	(28,905)	11,828
Yeongdeungpo-gu, Seoul (Factory building)	-	146,733	-	(6,417)	140,316
Incheon rural IT facility construction	2,295	-	-	(1,423)	872
Pyeongtaek Cheongbuk area land development electrical facility construction	1,130	-	500	(1,630)	-
Dang-dong, Gunpo (2)C-1BL apartment IT facility construction Section 4	2,734	-	-	(355)	2,379
DC link construction between Jindo and Jeju	USD 82,367 11,436	- -	- -	(USD 25,990) (3,609)	USD 56,377 7,827
Submarine cable construction between Wando and Chungsando, Jeonnam	-	10,255	-	(1,865)	8,390
Test solar concentrator	-	1,182	-	(1,182)	-
Buoy installation	-	871	-	(871)	-
Ocean Bottom Seismometer	-	1,016	-	(1,016)	-
Others	439	-	-	-	439
APCN2 submarine cable repair work	-	USD 1,713	-	(USD 1,713)	-
Total(Korean won)	₩ 81,816	₩ 160,057	₩ 500	₩ (70,322)	₩ 172,051
Total(USD)	USD 82,367	USD 1,713	-	(USD 27,703)	USD 56,377

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(In millions of Korean
won and us dollars in
thousands)

	2009					
	Beginning contract balance	Increase	Change in contracts	Recognized as revenue	Ending contract balance	
Bugae-dong, Incheon	₩ 78,872	₩ -	₩ -	₩ (74,537)	₩ 4,335	
Sungsu-dong, Seoul (Hyundai apartment)	13,528	-	-	(13,528)	-	
Sungsu-dong, Seoul (Factory building)	64,477	-	-	(45,763)	18,714	
Garak-dong, Seoul (Office building)	-	48,873	-	(8,140)	40,733	
Deep ocean water intake and drainage facilities construction	-	-	716	(716)	-	
Incheon rural IT facility construction	2,998	-	224	(927)	2,295	
Pyeongtaek Cheongbuk area land development electrical facility construction	-	4,113	2,728	(5,711)	1,130	
Marine research technical service for DC link construction between Jindo and Jeju	-	2,013	(31)	(1,982)	-	
DC link construction between Jindo and Jeju	-	USD 82,367	-	-	USD 82,367	
	-	11,436	-	-	11,436	
Dang-dong, Gunpo (2)C-1BL apartment IT facility construction	-	2,790	-	(56)	2,734	
Section4						
Others	439	421	(20)	(401)	439	
TPE submarine cable construction	USD 3,044	-	-	(USD 3,044)	-	
AAG submarine cable repair work	USD 1,228	-	USD 790	(USD 2,018)	-	
RJK cable system dismantlement	-	USD 1,927	(USD 241)	(USD 1,686)	-	
APCN2 submarine cable repair work	-	USD 1,953	-	(USD 1,953)	-	
TPE 3M PLIB	-	USD 3,595	(USD 154)	(USD 3,441)	-	

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consturction					
Total(Korean won)	₩ 160,314	₩ 69,646	₩ 3,617	₩ (151,761)	₩ 81,816
Total(USD)	USD 4,272	USD 89,842	USD 395	(USD12,142)	USD 82,367

During the years ended December 31, 2010 and 2009, the changes in remaining contract balance of major system integration business included in other operating revenue are as follows:

(In millions of Korean won)

	2010			
	Beginning contract balance	Increase	Recognized as revenue	Ending contract balance
Lease type private investment of advanced U-City broadband information network CCTV Construction, Ansan	₩ 2,043	₩ -	₩ (2,043)	₩ -
Construction of information highway, Busan	11,393	-	(346)	11,047
Construction and support for infrastructure and service operation of digital textbook research school	68	-	(68)	-
Second phase construction of national defense transportation information system	5,587	-	(2,568)	3,019
System integration of SMRT Mall IT and advertising facility construction in Seoul Metropolitan Rapid Transit Corporation	-	69,759	(61,409)	8,350
Management and operation of SMRT Mall business	-	82,000	(4,762)	77,238
Total	₩ 19,091	₩ 151,759	₩ (71,196)	₩ 99,654

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(In millions of Korean won)

	2009			
	Beginning contract balance	Increase	Recognized as revenue	Ending contract balance
Lease type private investment of advanced U-City broadband information network CCTV Construction, Ansan	₩ -	₩ 13,116	₩ (11,073)	₩ 2,043
Construction of information highway, Busan	12,612	-	(1,219)	11,393
Construction and support for infrastructure and service operation of digital textbook research school	-	9,727	(9,659)	68
Second phase construction of national defense transportation information system	-	7,973	(2,386)	5,587
Total	₩ 12,612	₩ 30,816	₩ (24,337)	₩ 19,091

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25. Operating Expenses

Operating expenses for the years ended December 31, 2010 and 2009, are as follows:

<i>(In millions of Korean won)</i>	2010	2009
Salaries and wages	₩ 2,162,812	₩ 2,192,935
Provision for severance benefits	242,770	1,128,352
Employee welfare	374,300	587,011
Utilities	254,085	250,664
Taxes and dues	240,050	207,234
Rent	278,049	257,405
Depreciation	2,819,639	2,873,831
Amortization	360,044	402,792
Repairs and maintenance	551,389	500,203
Commissions	1,450,286	1,261,852
Advertising	195,759	182,032
Research and development	268,802	239,508
Interconnection charges	1,245,451	1,227,088
Cost of services	804,108	581,762
International call settlement	284,849	263,749
Cost of goods sold	4,086,813	3,118,512
Promotion	1,227,632	1,121,880
Sales commission	1,621,430	1,804,583
Provision for doubtful accounts	171,195	103,852
Other	569,764	406,289
Total	19,209,227	18,711,534
Less : Transfer to other accounts	(52,996)	(38,269)
Net	₩ 19,156,231	₩ 18,673,265

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26. Income Tax Expense

Income tax expense for the years ended December 31, 2010 and 2009, consists of:

The components of income tax expense

<i>(In millions of Korean won)</i>	2010	2009
Current income tax expense	₩ 354,525	₩ 144,272
Changes in deferred income tax assets and liabilities related to temporary differences	(75,344)	(28,985)
Changes in deferred income tax assets and liabilities related to tax credits	80,328	(38,020)
Changes in deferred income tax assets and liabilities directly reflected in shareholders' equity	8,925	1,044
Income tax expense directly added to shareholders' equity	94	31,539
Others	3,315	(2,087)
Income tax expense	₩ 371,843	₩ 107,763

Deferred tax assets and liabilities directly reflected in shareholders' equity

<i>(In millions of Korean won)</i>	2010	2009
Gain on valuation of available-for-sale securities	₩ (2,519)	₩ (2,023)
Loss on valuation of available-for-sale securities	177	14
Increase in equity of associates	(438)	(252)
Decrease in equity of associates	7,606	1,386
Gain and loss on valuation of derivatives	10,458	530
Other capital adjustments	(5,443)	1,261
Total	₩ 9,841	₩ 916

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A reconciliation of the income tax expense and the income before income tax expense

(In millions of Korean won)

	2010	2009
Income before income tax expense	₩1,561,773	₩ 719,275
Expected tax expense at statutory tax rate	₩ 395,533	₩ 174,064
Differences		
Tax-free benefit	(4,750)	(4,473)
Tax-free expense	29,874	27,147
Impact of not recording deferred taxes on certain temporary differences	(5,631)	4,507
Changes in tax adjustment, additional income tax and tax refund for prior periods	8,678	12,758
Tax credit carryforwards and deductions	(54,658)	(110,969)
Changes in tax rates	7,023	3,194
Impact of changes in the realizability of deferred tax assets	(1,785)	-
Others, net	(2,441)	1,535
Income tax expense	₩ 371,843	₩ 107,763
Effective tax rate	23.8%	14.98%

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Deferred tax assets and liabilities from the tax effects of temporary differences, including available tax credit carryforwards

(In millions of Korean won)

	2010				
	Temporary Differences			Deferred Income Tax Assets (Liabilities)	
	Beginning Balance	Increase (Decrease)	Ending Balance	Beginning Balance	Ending Balance
Deferred tax arising from temporary differences					
Deferred tax arising from temporary differences					
Allowance for doubtful accounts	₩ 511,003	₩ 31,972	₩ 542,975	₩ 122,873	₩ 126,675
Derivatives	(132,351)	(3,564)	(135,915)	(27,959)	(30,583)
Inventory valuation reserve	-	4,656	4,656	-	1,125
Available-for-sale securities	41,606	(4,338)	37,268	9,154	8,495
Equity method investments	58,035	44,169	102,204	12,773	22,513
Depreciation	101,206	61,589	162,795	22,265	35,471
Contribution for construction	178,624	(35,782)	142,842	39,297	31,202
Inventories	6,633	(5,431)	1,202	1,174	291
Accrued expenses	140,169	222,531	362,700	33,918	87,997
Provisions	58,338	92,485	150,823	13,919	34,176
Provision for severance indemnities	1,157,978	(302,469)	855,509	254,760	188,409
Refundable deposits for telephone installation	43,677	(1,484)	42,193	9,609	9,283
Accrued revenues	(7,657)	4,288	(3,369)	(1,855)	(818)
Deposits for severance benefits	(1,136,144)	290,344	(845,800)	(250,007)	(186,019)
Reserve for technology and human resource development	-	(3,900)	(3,900)	-	(858)
Others	935,826	(44,719)	891,107	217,541	212,448
Tax loss carryforwards	281,201	(15,054)	266,147	61,882	60,999
Total	2,238,144	335,293	2,573,437	519,344	600,806
Not recognized as deferred income tax assets	(623,401)	(26,636)	(650,037)	(138,740)	(144,858)
Recognized as deferred income tax assets	₩ 1,614,743	₩ 308,657	₩ 1,923,400	380,604	455,948
Deferred tax assets arising from the carryforwards					
Total tax credit carryforwards	₩ 195,983	₩ (89,372)	₩ 106,611	195,983	88,794
Not recognized as deferred income tax assets	(26,861)	18,910	(7,951)	(26,861)	-
Recognized as deferred income tax assets	₩ 169,122	₩ (70,462)	₩ 98,660	169,122	88,794

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Net deferred income tax assets	<u>₩ 549,725</u>	<u>₩ 544,742</u>
Current deferred income tax assets	₩ 437,525	₩ 363,492
Non-current deferred income tax assets	113,266	185,724
Current deferred income tax liabilities	(1)	(1,817)
Non-current deferred income tax liabilities	(1,065)	(2,657)

(in millions of Korean won)

	2009				
	Temporary Differences			Deferred Income Tax Assets (Liabilities)	
	Beginning Balance	Increase (Decrease)	Ending Balance	Beginning Balance	Ending Balance
Deferred tax arising from temporary differences					
Allowance for doubtful accounts	₩ 497,672	₩ 13,331	₩ 511,003	₩ 119,855	₩ 122,873
Derivatives	(479,015)	346,664	(132,351)	(108,503)	(27,959)
Inventory valuation reserve	-	-	-	-	-
Available-for-sale securities	39,337	2,269	41,606	8,840	9,154
Equity method investment securities	1,455,549	(1,397,514)	58,035	320,220	12,773
Depreciation	(23,595)	124,801	101,206	(5,191)	22,265
Contribution for construction	233,106	(54,482)	178,624	51,283	39,297
Inventories	20,392	(13,759)	6,633	4,543	1,174
Accrued expenses	222,590	(82,421)	140,169	53,825	33,918
Provisions	182,556	(124,218)	58,338	43,422	13,919
Provision for severance indemnities	1,152,303	5,675	1,157,978	253,508	254,760
Refundable deposits for telephone installation	50,932	(7,255)	43,677	11,205	9,609
Accrued revenues	(11,652)	3,995	(7,657)	(2,798)	(1,855)
Deposits for severance benefits	(1,111,846)	(24,298)	(1,136,144)	(244,640)	(250,007)
Reserve for technology and human resource development	(106,667)	106,667	-	(25,813)	-
Others	1,140,412	(204,586)	935,826	256,236	217,541
Tax loss carryforwards	<u>223,560</u>	<u>57,641</u>	<u>281,201</u>	<u>49,183</u>	<u>61,882</u>
Total	3,485,634	<u>₩ (1,247,490)</u>	2,238,144	785,175	519,344
Not recognized as deferred income tax assets	<u>(1,962,652)</u>		<u>(623,401)</u>	<u>(433,556)</u>	<u>(138,740)</u>
Recognized as deferred income tax assets	<u>₩ 1,522,982</u>		<u>₩ 1,614,743</u>	<u>₩ 351,619</u>	<u>₩ 380,604</u>

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Deferred tax assets

arising from the carryforwards

Total tax credit carryforwards	₩ 153,193	₩ 42,790	₩ 195,983	153,193	195,983
Not recognized as deferred income tax assets	(22,091)		(26,861)	(22,091)	(26,861)
Recognized as deferred income tax assets	₩ 131,102		₩ 169,122	131,102	169,122

Net deferred income tax assets

			₩ 482,721	₩ 549,725
Current deferred income tax assets			₩ 249,941	₩ 437,525
Non-current deferred income tax assets			235,514	113,266
Current deferred income tax liabilities			-	(1)
Non-current deferred income tax liabilities			(2,734)	(1,065)

The possibility of realization on deferred tax asset depends on many factors, such as the Company's ability, overall economic environment, and industry prospects, within the realization period of temporary differences. The Company assesses such factors periodically, and recognizes the deferred tax assets as of December 31, 2010, because all temporary differences which will be deducted are realizable. But the Company did not recognize the income tax assets resulting from the earnings arising from carryforwards and equity-method investments as the Company does not expect the differences from equity-method investments to be reversed, within the foreseeable future.

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27. Income From Discontinued Operations

Doremi Media Co., Ltd is excluded from the consolidation as of December 31, 2010. The net income (loss) of Doremi Media and other subsidiaries for the years ended December 31, 2009 and 2010, are reclassified into income (loss) from discontinued operations, as follows:

<i>(in millions of Korean won)</i>	2010		2009		
	Doremi Media	Doremi Media	Olive Nine	KT FDS	Total
Book Value					
Assets of discontinued operations	₩ -	₩ 8,026	₩ -	₩ -	₩ 8,026
Liabilities of discontinued operations	-	8,409	-	-	8,409
Income (loss) from discontinued operations					
Operating and non-operating loss	₩ (574)	₩ (4,212)	₩ (7,432)	₩ (3,911)	₩ (15,555)
Gain on disposal of discontinued operations	3,186	-	4,035	4,246	8,281
Tax effect	-	-	4,305	1,152	5,457
Income (loss) from discontinued operations	₩ 2,612	₩ (4,212)	₩ 908	₩ 1,487	₩ (1,817)

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28. Comprehensive Income

Comprehensive income for the years ended December 31, 2010 and 2009, consists of:

<i>(in millions of Korean won)</i>	2010		2009	
	₩		₩	
Net income		1,192,542		609,695
Other comprehensive income				
Gain on valuation of available-for-sale securities		2,816		(113)
Loss on valuation of available-for-sale securities		(748)		7,687
Changes in equity-method investees with accumulated comprehensive income		85		(10,204)
Changes in equity-method investees with accumulated comprehensive expense		7,820		(10,138)
Gain on valuation of financial derivatives		(6,769)		486
Loss on valuation of financial derivatives		(28,384)		(26,223)
Gain on translation of foreign operations		6,885		(8,642)
Loss on translation of foreign operations		(23,198)		(18,656)
Comprehensive income	₩	1,151,049	₩	543,892
Attributable to : Equity holders of the parent	₩	1,129,900	₩	439,425
Minority interests		21,149		104,467

29. Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2010 and 2009, are as follows:

Basic earnings per share from continuing operations

<i>(in millions of Korean won, except for per share amounts)</i>	2010		2009	
	₩		₩	
Net income from continuing operations attributable to common shares		1,166,733		488,517
Weighted-average number of common shares outstanding		243,207,149		219,512,696
Basic earnings per share from continuing operations	₩	4,797	₩	2,225

Basic earnings per share from discontinued operations

<i>(in millions of Korean won, except for per share amounts)</i>	2010		2009	
	₩		₩	
Net income from discontinued operations attributable to common shares		1,272		6,329
Weighted-average number of common shares outstanding		243,207,149		219,512,696
Basic earnings per share from discontinued operations	₩	5	₩	29

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Basic earnings per share

<i>(in millions of Korean won, except for per share amounts)</i>	2010	2009
Net income attributable to common stock	₩ 1,168,005	₩ 494,846
Weighted-average number of common stock outstanding	243,207,149	219,512,696
Basic earnings per share	₩ 4,803	₩ 2,254

Weighted-average number of treasury stock for the years ended December 31, 2010 and 2009, is adjusted to weighted-average number of common shares outstanding.

Diluted earnings per share from continuing operations

<i>(in millions of Korean won, except for per share amounts)</i>	2010	2009
Net income from continuing operations attributable to common stock	₩ 1,166,733	₩ 488,517
Exchangeable bond interest	-	4,395
Adjusted income from continuing operations	1,166,733	492,912
Dilutive potential common shares outstanding	18,081	4,655,062
Weighted-average number of common shares outstanding and dilutive common shares	243,225,230	224,167,758
Diluted earnings per share from continuing operations	₩ 4,797	₩ 2,199

Diluted earnings per share from discontinued operations

<i>(in millions of Korean won, except for per share amounts)</i>	2010	2009
Net income from discontinued operations attributable to common stock	₩ 1,272	₩ 6,329
Adjusted income (loss) from discontinued operations	₩ 1,272	₩ 6,329
Dilutive potential common shares outstanding	18,081	4,655,062
Weighted-average number of common shares outstanding and dilutive common shares	243,225,230	224,167,758
Diluted earnings per share from discontinued operations	₩ 5	₩ 28

Diluted earnings per share

<i>(in millions of Korean won, except for per share amounts)</i>	2010	2009
Net income attributable to common stock	₩ 1,168,005	₩ 494,846
Exchangeable bond interest	-	4,395
Adjusted net income attributable to common stock	1,168,005	499,241
Dilutive potential common shares outstanding	18,081	4,655,062
Weighted-average number of common shares outstanding and dilutive common shares	243,225,230	224,167,758
Diluted earnings per share	₩ 4,802	₩ 2,227

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Diluted net income per share is calculated by dividing adjusted net income by the weighted average number of common shares outstanding and dilutive common shares. Stock options and other share-based payments have no dilutive effect and are excluded from the calculation of diluted earnings per share.

Potential common shares as of December 31, 2010 and 2009, are as follows:

	Par Value	Issue Date	Maturity Date	Exercisable Period	Common shares to be issued	
					2010.12.31	2009.12.31
Stock options	¹	Sept. 16, 2003	Sept. 16, 2010	From 2 years after grant date till maturity date	-	3,000
Stock options	²	Feb. 4, 2005	Feb. 4, 2012	Increase in the number of exercisable shares by 1/3 every year after two years from grant date	43,153	43,153
Stock options	³	March 25, 2002	March 25, 2010	From 3 years after grant date till maturity date	-	20,570
Stock options	⁴	Sept. 8, 2003	Sept. 8, 2010	From 2 years after grant date till maturity date	-	219,909
Stock options	⁵	March 4, 2005	March 4, 2012	From 2 years after grant date till maturity date	79,200	79,200
Other share-based payment	⁶	June 20, 2007	Exercised in first half of 2010	On maturity date, subject to the resolution of board of directors	-	11,790
Other share-based payment	⁶	March 27, 2008	Exercised in first half of 2010	On maturity date, subject to the resolution of board of directors	-	13,345
Other share-based payment	⁶	May 7, 2009	Exercised in first half of 2010	On maturity date, subject to the resolution of board of directors	-	29,055
Other share-based payment	⁶	April 29, 2010	Expected to be exercised in 2011	On maturity date, subject to the resolution of board of directors	142,436	-
Total					264,789	420,022

¹ Exercise price of ₩57,000 per common share.

² Exercise price of ₩54,600 per common share.

³ Exercise price of ₩62,814 per common share.

⁴ Exercise price of ₩41,711 per common share.

⁵ Exercise price of ₩42,684 per common share.

⁶ Shares to be given subject to performance.

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30. Dividends

The details of dividends for common stocks included in the Controlling Company's non-consolidated statements of appropriations of retained earnings for the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
Number of shares eligible for dividends	243,215,844	243,196,468
Dividend rate	48.2%	40.0%
Dividend amount <i>(in millions of Korean won)</i>	₩ 586,150	₩ 486,393
Payout ratio	50.20%	98.29%
Dividend yield ratio	5.21%	5.12%

31. Supplemental Cash Flows Information

The cash and cash equivalents stated on statements of cash flows are the same amount of cash and cash equivalents less government grants on statements of financial position.

Significant transactions not affecting cash flows for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010	2009
Reclassification of the current portion of bonds payable	₩ 1,925,773	₩ 1,243,005
Reclassification of construction-in-progress to property and equipment	2,379,598	2,246,210
Acquisition of equity-method investments through issuance of exchangeable bond	-	319,160
Reissuance of treasury stock in exchange of exchangeable bonds	-	451,157

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32. Related Party Transactions

The list of subsidiaries of the Company as of December 31, 2010, is as follows:

Type of control	Subsidiaries
Ultimate Controlling Company	KT Co.
Direct control	KT Hitel, KT Submarine Co., KT Networks Corporation, KT Powertel, KT Linkus Co., KT Telecop Co., Ltd., KT Rental, KT Capital, Sidus FNH Co., Ltd., KTDS, Nasmedia, Inc., KT Edui Co., Ltd. (formerly "JungBoPremiumEdu Co., Ltd."), Sofnics Inc., KT Tech, KT M Hows, KT M&S, KT Msusic, KT Innotz Inc., KT Estate Inc., KT Internal Venture Fund No.2, Sidus FNH Benex Cinema Investment Fund (formerly "Sidus FNH Benex Cinema Investment Fund"), KT New Business Fund No.1, KT Capital Media Contents Fund No.2, Gyeonggi-KT Green Growth Fund, KT Strategic Investment Fund No.1, Korea Telecom America, Inc., New Telephone Company Inc., Korea Telecom Japan Co., Ltd., Korea Telecom China Co., Ltd., KTSC Investment Management B.V., PT. KT Indonesia
Indirect control through KT Hitel	KT Commerce Inc.
Indirect control through KT Capital	Vanguard Private Equity Fund, KTC Media Contents Fund 1, KT-LIG ACE Private Equity Fund Co., Ltd.
Indirect control through KT Rental	KTR
Indirect control through KTSC Investment Management B.V.	East Telecom and Super iMax
Indirect control through NTSC	Helios TV and Novaya Svyaz

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The Controlling Company's significant transactions and balances with subsidiaries as of December 31, 2010 and 2009 and for the years ended then, are as follows:

<i>(in millions of Korean won)</i>	Operating Revenue	Operating Expense	Receivables	Payables
KT Powertel Co., Ltd.	₩ 15,287	₩ 3,773	₩ 957	₩ 1,259
KT Networks Corporation	64,347	119,356	8,133	53,280
KT Telecop Co., Ltd.	12,336	48,727	426	18,439
KT Hitel Co., Ltd.	10,197	67,777	753	38,147
KT Tech, Inc.	1,296	312,244	159	92,300
KTR Co., Ltd.	4,802	11,982	2	66,795
KT Rental Co., Ltd.	9,783	36,615	61	7,409
KT Capital Co., Ltd.	80	4,992	7	47,379
KTDS	10,137	335,534	4,532	97,465
KT M&S Co., Ltd.	656,631	137,673	16,029	54,380
Others	34,623	252,119	5,234	36,087
2010 Total	₩ 819,519	₩ 1,330,792	₩ 36,293	₩ 512,940
2009 Total	₩ 594,026	₩ 1,217,351	₩ 63,120	₩ 453,338

Significant balances and transactions among the subsidiaries as of December 31, 2010 and 2009 and for the years ended then, are as follows:

<i>(in millions of Korean won)</i>	Receivables and Payables	Operating Revenue and Expense
2010 Total	₩ 120,745	₩ 75,085
2009 Total	₩ 121,528	₩ 502,106

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The Controlling Company's significant transactions and balances with equity-method investees as of December 31, 2010 and 2009 and for the years ended then, are as follows:

<i>(in millions of Korean won)</i>		2010		2009
Operating Revenue	₩	164,778	₩	122,036
Operating Expense		905,504		668,979
Receivables		15,530		11,140
Payables		142,015		89,290

Details of the Controlling Company's ownership in the related parties, acquisition cost, fair value (or net asset) and book values are in Note 2 and Note 8.

Key management compensation for the years ended December 31, 2010 and 2009, consists of:

<i>(in millions of Korean won)</i>	2010	2009	Description
Benefits	₩ 33,744	₩ 17,068	Salaries, bonuses, other allowances, retirement benefits, medical benefits and others
Compensation expenses	6,794	1,052	Compensation expenses associated to stock options, stock grants
Total	₩ 40,538	₩ 18,120	

Key management consists of vice presidents and higher positions, who have the authority and responsibility for planning, operation and control and are in charge of a business unit or division, and non-permanent directors.

33. Segment Information

The Company's operating segments are as follows:

Details	Business service
Personal Customer Group ("Personal")	Personal customers using PCS and WiBro
Home Customer Group ("Home")	Home customers using telephone, internet, data and others
Enterprise Customer Group ("Enterprise")	Enterprise customers using telephone, internet, data and others
Others	Global, real estate, and others

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Details of each segment for the years ended December 31, 2010 and 2009, are as follows:

2010							
	Personal	Home/ Enterprise	Others	Total	Elimination	Consolidated amount	
Operating revenues	₩ 10,387,800	₩ 9,845,716	₩ 3,346,111	₩ 23,579,627	₩(2,248,314)	₩ 21,331,313	
Operating income	1,477,844	575,453	149,391	2,202,688	(27,606)	2,175,082	
Depreciation and Amortization	928,600	1,985,755	256,632	3,170,987	7,414	3,178,401	
Property and equipment and Intangible assets	4,700,790	10,385,029	1,324,175	16,409,994	50,730	16,460,724	
2009							
	Personal	Home/ Enterprise	Others	Total	Elimination	Consolidated amount	
Operating revenues	₩ 9,313,751	₩ 10,108,769	₩ 2,423,569	₩ 21,846,089	₩(2,202,277)	₩ 19,643,812	
Operating income	1,040,025	(44,044)	(4,742)	991,239	(20,692)	970,547	
Depreciation and Amortization	1,013,685	2,054,897	199,853	3,268,435	7,374	3,275,809	
Property and equipment and Intangible assets	4,757,330	10,653,089	619,465	16,029,884	24,176	16,054,060	

Information by Industry for the years ended December 31, 2010 and 2009, is as follows:

Assets and liabilities by industry as of December 31, 2009 and 2010

	2010			2009		
	Non-financial	Financial	Consolidated amount	Non-financial	Financial	Consolidated amount
Assets						
Current assets						
Quick assets	₩ 6,433,581	₩ 983,219	₩ 7,416,800	₩ 6,587,387	₩ 685,060	₩ 7,272,447
Inventories	<u>655,831</u>	<u>-</u>	<u>655,831</u>	<u>699,402</u>	<u>-</u>	<u>699,402</u>
Sub-total	<u>7,089,412</u>	<u>983,219</u>	<u>8,072,631</u>	<u>7,286,789</u>	<u>685,060</u>	<u>7,971,849</u>
Non-current assets						
Investments	696,623	86,568	783,191	512,953	48,417	561,370
Property and equipment	15,185,606	42,252	15,227,858	14,750,631	23,929	14,774,560

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Intangible assets	1,232,395	471	1,232,866	1,279,236	264	1,279,500
Other	<u>1,597,541</u>	<u>799,372</u>	<u>2,396,913</u>	<u>1,352,597</u>	<u>680,441</u>	<u>2,033,038</u>
Sub-total	<u>18,712,165</u>	<u>928,663</u>	<u>19,640,828</u>	<u>17,895,417</u>	<u>753,051</u>	<u>18,648,468</u>
Total assets	<u>₩ 25,801,577</u>	<u>₩ 1,911,882</u>	<u>₩27,713,459</u>	<u>₩ 25,182,206</u>	<u>₩ 1,438,111</u>	<u>₩ 26,620,317</u>
Liabilities						
Current liabilities	₩ 7,053,092	₩ 376,538	₩ 7,429,630	₩ 6,145,841	₩ 795,382	₩ 6,941,223
Non-current liabilities	<u>7,326,898</u>	<u>1,461,259</u>	<u>8,788,157</u>	<u>8,423,158</u>	<u>588,497</u>	<u>9,011,655</u>
Total liabilities	<u>₩ 14,379,990</u>	<u>₩ 1,837,797</u>	<u>₩16,217,787</u>	<u>₩ 14,568,999</u>	<u>₩1,383,879</u>	<u>₩15,952,878</u>

Results of operations by industry for the years ended December 31, 2009 and 2010

	2010			2009		
	Non-financial	Financial	Consolidated amount	Non-financial	Financial	Consolidated amount
Operating revenues	₩21,165,515	₩ 165,798	₩ 21,331,313	₩ 19,508,859	₩ 134,953	₩ 19,643,812
Operating expenses	<u>19,016,819</u>	<u>139,412</u>	<u>19,156,231</u>	<u>18,555,188</u>	<u>118,077</u>	<u>18,673,265</u>
Operating income	2,148,696	26,386	2,175,082	953,671	16,876	970,547
Non-operating revenues	522,722	95	522,817	806,521	970	807,491
Non-operating expenses	<u>1,136,118</u>	<u>8</u>	<u>1,136,126</u>	<u>1,058,757</u>	<u>6</u>	<u>1,058,763</u>
Income from continuing operations before income tax	1,535,300	26,473	1,561,773	701,435	17,840	719,275
Income tax on continuing operations	<u>363,157</u>	<u>8,686</u>	<u>371,843</u>	<u>101,863</u>	<u>5,900</u>	<u>107,763</u>
Income from continuing operations	1,172,143	17,787	1,189,930	599,572	11,940	611,512
Income(loss) from discontinued operations	<u>2,612</u>	<u>-</u>	<u>2,612</u>	<u>(1,817)</u>	<u>-</u>	<u>(1,817)</u>
Net income	<u>₩ 1,174,755</u>	<u>₩ 17,787</u>	<u>₩ 1,192,542</u>	<u>₩ 597,755</u>	<u>₩ 11,940</u>	<u>₩ 609,695</u>

34. Employee Welfare

Cost on the various employee welfare programs of the Company for the years ended December 31, 2010 and 2009, totaled ₩374,300 million and ₩587,011 million, respectively.

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35. Subsequent Events

Subsequent to December 31, 2010, the Controlling Company has issued the unsecured public bonds as follows:

<i>(in thousands)</i>	Issue Date	Par Value	Interest Rate	Maturity Date	Repayment Method
USD denominated unsecured public bond (178-1 st) with floating rate	2011.1.11	USD 100,000	Libor(3M) + 1.00%	2013.1.18	Lump sum repayment at maturity
USD denominated unsecured public bond (178-2 nd) with floating rate	2011.1.11	USD 100,000	Libor(3M) + 1.05%	2014.1.17	Lump sum repayment at maturity
JPY denominated foreign public bond	2011.1.20	JPY 35,000,000	1.58%	2013.1.25	Lump sum repayment at maturity

As approved by the Board of Directors on December 10, 2010, the Controlling Company acquired from Dutch Savings Holdings B.V 5,600,000 of redeemable convertible preferred stock with voting rights, and ₩246,400 million in bonds which are convertible into 5,600,000 of common stock of Korea Digital Satellite Broadcasting Co., Ltd.. The accrued interests of ₩7,969 million are also included in the amount of the convertible bond. Accordingly, the Controlling Company's ownership in Korea Digital Satellite Broadcasting Co., Ltd. has increased from 32.12% to 46.41%. If the potential voting rights are also considered, the ownership increases to 53.05%.

As approved by the Board of Directors on February 3, 2011, KT Capital decided to acquire 1,489,400 of the common stocks of BC Card owned by Shinhan Bank, representing 33.85% of total outstanding shares, for ₩231,602 million.

KT Rental and KTR merged on March 1, 2011, as approved by the Board of Directors on January 7, 2011.

36. Merger with KTF

On January 20, 2009, the Controlling Company entered into a merger agreement with KTF, which was subsequently approved by the shareholders on March 27, 2009. On June 1, 2009, the Controlling Company, as the surviving company, merged with KTF.

The Controlling Company issued 0.7192335 share of KT common stock with a par value per share of ₩ 5,000 for one share of KTF. However, the Controlling Company did not issue any new common stock for the shares of KTF common stock held by the Controlling Company or for the treasury shares of KTF as of the date of the merger.

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Details of merged companies:

	CEO	Business	Relationship
KT Corporation (KT)	Lee Suk Chae	Telephone service, new media business, telecommunication products sales and other	Parent
KT Freetel Co.,Ltd. (KTF)	Kwon Haing Min	Mobile telecommunication service and other	Subsidiary

Accounting treatment

As this is a merger between parent and subsidiary, the Controlling Company accounted for the merger using the carrying amounts in its consolidated financial statements and accordingly, the excess of merger consideration given over the carrying amount of net assets acquired was recognized as capital adjustment after offsetting capital surplus, if any, from the similar type of transaction.

Decrease in Minority interest (a):	₩ (1,553,491)
Changes in equity :	
Increase in common stock	3,501
Decrease in treasury stock	2,436,659
Decrease in gain on disposal of treasury stock	(375)
Decrease in accumulated other comprehensive income	(6,932)
Decrease in capital adjustments	(879,362)
Sub-total (b) :	1,553,491
Changes in total equity (a+b):	₩ -

Goodwill

Changes in goodwill for the year ended December 31, 2010, are as follows:

January 1, 2009	₩ 195,170
Amortization	(130,113)
December 31, 2009	65,057
Amortization	(65,057)
December 31, 2010	₩ -

Goodwill is amortized on a straight-line basis over ten years and, as of June 30, 2010, the goodwill had been fully amortized.

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Financial statements of the merged companies

Statements of financial position

<i>(in millions of Korean won)</i>	KT		KTF	
	2009.6.1	2008.12.31	2009.6.1	2008.12.31
Current assets	₩ 4,926,684	₩ 3,778,105	₩ 2,716,833	₩ 2,199,857
Investment assets	3,846,019	3,517,906	270,019	396,903
Property and equipment	9,932,337	10,428,674	3,919,107	4,165,339
Intangible assets	344,330	397,046	783,254	780,242
Other non-current assets	503,787	563,191	559,353	513,781
Total assets	<u>₩ 19,553,157</u>	<u>₩ 18,684,922</u>	<u>₩ 8,248,566</u>	<u>₩ 8,056,122</u>
Current liabilities	₩ 2,871,186	₩ 2,585,875	₩ 2,657,350	₩ 2,031,871
Non-current liabilities	8,274,862	7,267,158	1,282,719	1,658,402
Total liabilities	<u>11,146,048</u>	<u>9,853,033</u>	<u>3,940,069</u>	<u>3,690,273</u>
Total equity	<u>8,407,109</u>	<u>8,831,889</u>	<u>4,308,497</u>	<u>4,365,849</u>
Total liabilities and equity	<u>₩ 19,553,157</u>	<u>₩ 18,684,922</u>	<u>₩ 8,248,566</u>	<u>₩ 8,056,122</u>

Statements of income

<i>(in millions of Korean won)</i>	KT		KTF	
	For the period from Jan. 1, 2009 to the date of the merger	For the year ended Dec. 31, 2008	For the period from Jan. 1, 2009 to the date of the merger	For the year ended Dec. 31, 2008
Operating revenues	₩ 4,662,137	₩ 11,784,835	₩ 3,516,358	₩ 8,346,220
Operating expenses	4,078,756	10,671,446	3,131,947	7,891,839
Non-operating revenues	329,587	855,289	43,656	201,470
Non-operating expenses	372,047	1,408,633	152,858	469,496
Income tax expense	<u>105,765</u>	<u>110,235</u>	<u>45,833</u>	<u>21,776</u>
Net income	<u>₩ 435,156</u>	<u>₩ 449,810</u>	<u>₩ 229,376</u>	<u>₩ 164,579</u>

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37. Adoption of K-IFRS

The Controlling Company plans to prepare its financial statements in accordance with K-IFRS starting from the year ending December 31, 2011. Since “the Roadmap to K-IFRS Adoption” has been announced in March 2007, the Controlling Company organized a task force team, conducted training, and analyzed the impact of the adoption of K-IFRS. The Controlling Company is also analyzing the key differences and potential impact on financial statements, while formulating the proper accounting policies.

Significant differences between the accounting policies chosen by the Controlling Company under K-IFRS and under current generally accepted accounting principle in Republic of Korean (K-GAAP) are as follows:

		K-IFRS	K-GAAP
First time adoption of K-IFRS	Business combination	Not applying IFRS 3 retrospectively to a past business combination	Not available
	Fair value or revaluation as deemed cost	Recognition of fair value in its opening IFRS statement of financial position as deemed cost for an item of property and equipment	Not available
	Borrowing costs	Capitalization of borrowing costs for qualifying assets acquired after the date of transition (January 1, 2010)	Not available
Initiation fee revenue		The amount of Initiation fee is deferred and recognized as a part of service revenue over the period during which the service is performed.	The total amount of initiation fee is recognized as revenue when the fee is paid.
Real estate revenue		According to revenue recognition arising from the sale of goods, real estate revenue is recognized at the time of the transfer of the legal title.	Considered as a construction contract, the real estate revenue is recognized on a percentage of completion basis.
Customer Loyalty Programmes		The sales transaction in which they are granted is allocated to the separately identifiable component. The revenue is deferred and recognized over the period.	The amount of future obligation is recognized as an expense and liability provision at the time of the sale transaction.
Change in scope of consolidated financial statements		Regardless of size of each subsidiary, consolidated financial statements shall include all entities controlled by the parent.	According to “the Act on External Audit of Stock Companies”, Section 1 paragraph 3 item 2, consolidated financial statement shall include all subsidiaries except for the entities of which the total assets as of prior year end were less than ₩10 billion

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	K-IFRS	K-GAAP
Capitalization of borrowing costs	An entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, acquired after the date of transition, as part of the cost of that asset.	All borrowing costs are recognized as expense.
Financial assets and liabilities (Financial instruments)	Financial assets categorized as loans and receivables are measured at their fair value and the difference between the fair value and nominal value is amortized using effective interest method. Other financial liabilities are measured at amortized cost using effective interest method.	Receivables and payables resulting from long-term installment payment transactions, long-term cash loans or other similar borrowings, are valued at their present values, discounted at an appropriate discount rate when the difference between the nominal value and present value is material.
Employee benefits	For the employees who elect the defined benefit plan, the defined benefit obligations are measured using actuarial method. For the others, the accrued expenses are recognized using actuarial method.	Accrued employee benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the date of statement of financial position. The other employee benefits are recognized when obligations to pay the benefits are determined.
Goodwill	Goodwill is not amortized, but impairment test is performed annually at the year-end of reporting period, and a bargain purchase is recognized in profit or loss on the acquisition date.	Goodwill recognized at the business combination is amortized using the straight-line method. Negative goodwill(a bargain purchase) is reversed as income when actual loss occurs, or during the period of weighted average useful life of amortizable assets on the straight-line method basis.
Reclassification of investment property	A property held to earn rentals or for capital gain or both is classified as investment property.	A property held to earn rentals is classified as property and equipment.
Membership	Membership is classified as Intangible asset with indefinite useful life or financial asset	Membership is classified as long-term deposit of other non-current asset.

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	K-IFRS	K-GAAP
Deferred tax	<p>Deferred tax assets or liabilities on investments in subsidiaries and associates are recognized by reflecting the tax consequences of each temporary differences.</p> <p>An entity shall classify all deferred tax assets and liabilities as non-current.</p>	<p>Deferred tax assets or liabilities on investments in subsidiaries and associates are recognized by the net amount of temporary differences from each investment.</p> <p>An entity classifies defend tax assets and liabilities as current on non-current according to the period in which the temporary differences are reversed.</p>

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