ANNUAL FINANCIAL REPORT
OF
KT CORPORATION

(From January 1, 2011 to December 31, 2011)

Investor Relations
Finance Office
206 Jungjadong, Pundanggu,
Sungnam Citu, Kyunggido,
463-711, Republic of Korea

April 27 , 2012

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

Dear Sir/Madam,

I, Bum Joon Kim, Executive Vice President and Chief Financial Officer 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: Bum Joon Kim
Position: Executive Vice President and
Chief Financial Officer

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(EXHIBIT 99-2 : SEPARATE FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011 AND 2010 AND INDEPENDENT AUDITORS' REPORT)

I. Corporate Generals

1. Corporate Purpose of KT Corporation

Business Objectives
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 business 23. Health Bioinformatics business 24. Military telecommunication equipment manufacturing business; and 25. 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.

- Mr. Suk Chae Lee was reelected as the CEO and President of KT at the annual shareholders' meeting held on March 16, 2012.

3. Total Number of Shares and Related Matters

A. Total Number of Shares

(As of December 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		17,810,562	17,810,562
VI. Current Number of Issued and Outstanding Shares		243,301,246	243,301,246

B. Status of Capital Increase/Decrease

(As of December 31, 2011) (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

➢ For the merger with KTF, KT issued 700,108 new shares. As a result, the capital amount increased by 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

(As of Dec 31, 2011) (Unit: Shares)

Method of Acquisition		Type	Beginning of Term	Acquisition (+)	Disposition (-)	Retirement (-)	End of Term
Direct Acquisition	Pursuant to Article 165-2 of Securities and Exchange Act	Common Shares	17,449,209	-	-	-	17,449,209
		Preferred Shares	-	-	-	-	-
	Reasons other than Article 165-2 of Securities and Exchange Act	Common Shares	446,755	-	85,402	-	361,353
		Preferred Shares	-	-	-	-	-
Subtotal		Common Shares	17,895,964	-	85,402	-	17,810,562
		Preferred Shares	-	-	-	-	-
Indirect Acquisition (e.g. Trust Contract)		Common Shares	-	-	-	-	-
		Preferred Shares	-	-	-	-	-
Total		Common Shares	17,895,964	-	85,402	-	17,810,562
		Preferred Share	-	-	-	-	-

- The above "Beginning of Term" means as of January 1, 2011 and "End of Term" means as of December 31, 2 011.
- Details of share buyback and retirement of treasury shares from January 1, 2011 to December 31, 2011 are as follows.

(1) Acquisition of Treasury Shares

- Not Applicable

(2) Disposition of Treasury Shares (85,402 shares)

- January 14, 2011: Disposition of treasury shares in connection with the exercise of stock options (2,673 shares)
- May 26, 2011: Disposition of treasury shares to distribute long-term performance based bonus payment to non-independent directors (82,729 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, 2011) (Unit: Shares)

Type of Account	Type of Shares	Balance at Beginning of Term	Term-End Balance
Association Account	Common Shares	34,888	34,888
Association Member Account	Common Shares	4,034,259	3,523,682
Total		4,069,147	3,558,570

4. Voting Rights

(As of December 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	17,810,562	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	243,301,246	-
	Preferred Shares	-	

- Shares without voting rights under the Commercial Code of Korea: 17,810,562 treasury shares held through trea sury stock funds.

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		2011	2010	2009
Par Value per Share (Won)		5,000	5,000	5,000
Net Profit of the Current Term (in Millions of Won)		1289,055	1248,846	516,533
Net Profit per Share (Won)		5,299	5,135	2,353
Year-end Cash Dividend (in Millions of Won)		486,602	586,150	486,393
Year-end Share Dividend (in Millions of Won)		-	-	-
Cash Dividend Propensity (%)		37.7	46.9	94.2
Rate of Return on Cash Dividend (%)	Common Shares	5.3	5.0	4.9
	Preferred Shares	-	-	-
Rate of Return on Share Dividend (%)	Common Shares	-	-	-
	Preferred Shares	-	-	-
Cash Dividend per Share (Won)	Common Shares	2,000	2,410	2,000
	Preferred Shares	-	-	-
Share Dividend per Share (Share)	Common Shares	-	-	-
	Preferred Shares	-	-	-

- Dividend related figures are based on K-IFRS standards for 2011 & 2010 results, and K-GAAP standards for 200 9 results.
- The dividend-related information are based on KT-Only results.

II. Business Details

1. Overview

A. Present Conditions of the Industry

(1) Characteristics of the Industry

■ Telecommunication (KT, KT Powertel)

The existing markets for fixed-line telephony, 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 been moving towards to a convergence with different technologies and industries. KT had successfully shifted the mobile industry paradigm from the voice-centric market to the data-centric market by introducing iPhone from Apple to the Korean market at the end of 2009. KT further strengthened its handset competitiveness by introducing various other types of smartphone handsets, such as iPhone4 (Apple), Nexus-One (HTC), Optimus-One (LGE), Desire HD (HTC), and Streak (Dell) in 2010. In 2011, KT introduced 21 smartphones models including iphone4S (Apple), Galaxy-S2 (Samsung), Optimus-Black (LGE). In addition, KT has been seeking to maximize its usage of 3W (WCDMA, WiFi, WiBro) networks and applied CCC (Cloud Communication Center) technology to 3G network in Seoul and metropolitan cites by end-2011 in anticipation of an explosion in data traffics, which stabilized KT's mobile service quality.

KT also introduced 'olleh market'(KT's appstore) and developed various applications such as 'Genie'(music streaming service using Cloud) and 'olleh tv now'(n-screen service with IPTV channels and VODs). In addition, KT enhanced its competitiveness of media business by promoting 'olleh TV skylife', a hybrid service combining HD satellite channels of KT Skylife and VODs of KT's IPTV.

Meanwhile, TRS (Trunked Radio System) service, which combines nation-wide radio communication, 0130 mobile calls and wireless data, is expected to sustain its growth in the foreseeable future, mainly focused on specific markets such as logistics and industrial sites. Finally, NI / SI (Network Integration / System Integration) are expanding business boundary as we move into the convergence era of information and communication technology (ICT)-based smart society such as green IT, cloud computing, BcN, etc.

■ Credit Cards Business (BC Card)

Shinsegye Department Store first introduced credit cards to Korea back in 1967 and the full-scale credit card service began in 1978 when Foreign Exchange Bank started issuing Visa cards. In 1982, five domestic banks (Chohung, Commercial, First Korea, Hanil, Seoul Trusts) established Banks' Credit Card Association (the predecessor of BC Card) and launched their card operations. Today's credit card business shape was formed when the Credit Card Industry Act was enacted in 1987. In 2009, the government expanded possible credit cards' payment accounts that had been limited to Commercial Bank's accounts into CMA accounts of financial investment companies, which were allowed to issue CMA-based credit cards.

Credit card industry has been expanding its business scale with the government's credit card proliferation policy of which was designed to help the government correctly charge the taxable income. Recently, BC Card is reinforcing its risk management in order to enhance profitability.

■ Online contents creation and e-commerce (KT Hitel)

The internet service market is rapidly expanding its territory from wired internet services of desk-top PC to mobile internet services. In these circumstances, the pace of change in the mobile internet environment has been accelerated by the advent of real time web services such as twitter, facebook and cloud computing services such as apple's icloud, Amazon's cloud and Ucloud of KT. As a result, there have been huge changes not only in the internet services market but also in the internet related contents business areas.

■ Security and Guards (KT Telecop)

Because of a continuous rise in income, increasing participation by women in the public affairs and the impact of an aging society, consumers are more and more security conscious. The traditionally less volatile security market, with its high market entry barriers, is a stable business with high growth prospects. In addition, the existing simple electronic security market is developing into an integrated security market, which includes personal security and SI (system integration). And its market is expected to grow into an integrated safety management industry by blending with relevant industries.

■ Lease and Corporate Loan (KT Capital)

Installment finance refers to lending capital to individual customers when they purchase goods that are costly, such as automobiles, machinery or real estates, and charging monthly installments which includes principle and interests. Lease refers to an agreement between two parties whereby one party allows the other to use his/her property for a certain period of time in exchange for a periodic fee. Mostly, finance companies offer both installment finance and lease services.

■ Satellite Broadcasting Service (KT Skylife)

Since the broadcasting services become increasingly more integrated with the telecommunication, its value chain in the media industry has been reshuffled. As a result, more customized broadcasting services are available these days.

(2) Growth of the Industry

■ Telecommunication (KT, KT Powertel)

(Unit: 1,000 Persons)

Category	2011	2010	2009
Broadband internet Subscribers	17,860	17,219	16,349
Local Telephone Subscribers	18,862	19,273	20,090
Mobile Phone Subscribers	52,507	50,767	47,944
TRS Subscribers	382	378	352

➢ The 2009 to 2011 data were provided by the Korea Communications Commission (www.kcc.go.kr).

■ Credit Cards Business (BC card)

【Annual Credit Card Transaction Market】

Category	2011	2010	2009
Transaction amount (KRW billion)	468,883	397,092	337,103
YoY growth (%)	18.1	17.8	10.1

➢ BC Card's internal data

■ Online contents creation and e-commerce (KT Hitel)

The internet service market is expected to grow continuously with the growth of the existing wired internet market and the advent of the mobile internet market. However in the wired internet market, it is difficult for late comers to increase their market share because of continuing encroachment on the display advertising and search advertising markets by leading companies. On the other hand, the domestic mobile internet advertising market is expected to grow from Won 500 billion in 2012 to about Won 1 trillion by 2015 with increasing adoptions of smartphones, smart TV, tablet PC and other smart devices.(Source: Frost & Sullivan)

In the game market, while genres focused on MMORPG, FPS and AOS are attracting strong public demand, the online game market is continuing its solid growth as major game companies aim to secure online sports game line-ups which are increasingly popular. In addition, due to increasing adoptions of smartphones and the revision in domestic game laws, the demand for mobile games is expected to expand further.

■ Security and Guards (KT Telecop)

In the domestic security industry, affected by developments in electronics, computer, internet, telecommunications and film industries, value-added products are being introduced to the market. With an expectation of disposable income to grow continuously, the relevant security industry should continue to yield stable growth in coming years.

■ **Lease and Corporate Loan (KT Capital)**

(a) Lease Items

(Unit: KRW billion)

Items	2010	2009	2008
Industrial machinery	1,663.4	896.0	1,899.5
Transportation equipment	6,338.8	4,876.4	6,106.7
Medical devices	836.8	508.0	824.0
Pollution prevention equipment	0.7	0.9	0.6
Equipment for Science and Technology	722.0	800.4	588.3
Telecommunication Equipment	163.1	191.0	162.6
Industrial equipment for distribution	10.0	5.3	12.9
Other	242.2	172.0	422.5
Total	9,977.0	7,450.0	10,017.2

➢ Source: Credit Finance Association (2011 data unpublished)

(b) Installment Finance

(Units: KRW billion, thousand items)

Items	2010		2009		2008	
	Items	Amounts	Items	Amounts	Items	Amounts
Durables	623	9,322.6	427	6,247.2	784	10,615.7
Machinery	13	690.3	9	389.3	16	623.5
Others	3	62.3	1	25.8	2	44.1
Total	643	10,453.2	440	6,983.0	806	11,643.1

➢ Source: Credit Finance Association (2011 data unpublished)

■ **Satellite Broadcasting Service (KT Skylife)**

In the future, broadcasting and telecommunication operators will provide not only voice and data with IPTV and VoIP but also offer interactive satellite and mobile services that integrate wireless and wireline characteristics. These new "Multiple Play Services" will be available, allowing users to interact with high quality media contents.

【Paid-TV subscriber trend】

(Unit: person)

Paid TV Market	Subscribers (No. of Lines)		
	3Q11	2010	2009
Subscribers	22,688,745	21,548,197	20,150,007

➢ Source: Paid-TV Providers, 4Q11 data unpublished

(3) Characteristics of Market Fluctuations and Seasonality

■ Telecommunication (KT, KT Powertel)

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

■ Credit Cards Business (BC card)

The credit card industry is a typical domestic business which is highly affected by the private consumption trend and overall economic conditions.

■ Online contents creation and e-commerce (KT Hitel)

Due to the nature of advertising, online advertising tends to fluctuate along with business activity. However, given the fact that the online advertising company's customer portfolios are usually consisted of various large and small companies, this makes online advertising less sensitive to market conditions than that of offline advertising. Normally, it is considered that the first quarter when large companies fix their annual advertising budgets and the third quarter covering the summer vacations are typically low demand seasons, whereas the second and fourth quarters when the majority of promotional activities take place are considered the peak seasons.

The contents market is also less sensitive to economic fluctuations compared to other businesses due to the dissemination of a variety of platforms. Nevertheless, seasonal performance is stronger in the first and third quarters, in which cover the usual student vacation periods, than in the second and fourth quarters.

■ Security and Guards (KT Telecop)

The security business is less sensitive to economic fluctuations due to the conservative nature of the security business. But, the domestic economic slowdowns and price competition may dampen the growth outlook.

■ Lease and Corporate Loan (KT Capital)

Seasonality in credit finance industry is not clearly evident, but lease and installment payment markets are affected by the macro economy. Seasonality is also indistinctive for the new tech finance market.

■ Satellite Broadcasting Service (KT Skylife)

The paid-TV market is perceived as necessities rather than a luxury service. Unless there is a severe economic downturn, the customer churn rate is relatively stable. Moreover, the revenue from paid-TV service is based on monthly subscription fees, which are resilient to seasonality.

(4) Competition

■ Telecommunication (KT)

(a) Competing Companies

- Local calls: SK Broadband, LG U+, etc.
- Long distance calls: SK Broadband, SK Telink, LG U+, Onse Telecom, etc.
- International calls: SK Broadband, SK Telink, LG U+, Onse Telecom, etc.
- Broadband internet: SK Broadband, LG U+, Service Operators (cable television & relay wired broadcasting operators)
- Mobile communications: SK Telecom, LG U+, etc.
- internet telephones (VoIP): SK Broadband, SK Networks, SK Telink, Samsung Networks, LG U+, etc.
- IPTV: SK Broadband, LG U+
- Mobile internet (WiBro): SK Telecom

(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.

■ Telecommunication (KT Powertel)

As mobile carriers are adding radio telephony functionality to their services, KT Powertel aims to expand the market share by taking advantage of TRS' (Trunked Radio System) uniqueness despite of alternative services from mobile operators.

■ Credit Cards Business (BC Card)

(a) Competing Companies

- Samsung Card, Hyundai Card, Lotte Card, Shinhan Card, Kookmin Card and Hana-SK Card

(b) Market Entry Requirements

- Not applicable

(c) Factors of Competition

- Member sizes, the number of card transactions, member stores, and the number of issued cards

■ **Online contents creation and e-commerce (KT Hitel)**

Currently, a few companies with core content services dominate the market. However, due to low entrance barriers of the industry, newly formed companies actively participate in the competition. Additionally, in the IP rights market, the emergence of a variety of platforms has been increasing value-addition of contents market, increasing participation of enterprises including large corporate should intensify the competition level in the future.

■ **Security and Guards (KT Telecop)**

The safety market is currently dominated by three companies; KT Telecop, S1 and ADT Caps. KT Telecop has recently launched high tech services such as the video security services (Telecop-i, Smart CCTV, Smart Guard, Kids View, etc.) and the Building IT Convergence service. The entrance barriers in the security business include government regulations and the security licensing (machinery guard, facility guard, special guard and personnel protection). Also, other barriers are new comers should possess nationwide mobilization/control/AS service, brand value, distribution network and dispatch area, etc.

■ **Lease and Corporate Loan (KT Capital)**

According to the Credit Finance Act, credit finance companies are required for mandated criteria such as a minimum capital amount (W20bn up to two and W40bn from three), capital adequacy, prudent credit limit, liquidity and risk management. Nevertheless, entry barriers to credit finance industry are fairly low compared to other financial industries such as banking, insurance and credit card markets. However, except for auto loans, the current domestic credit loan market is not sizable enough and many small players are competing for a market share, resulting in very severe competitions.

■ **Satellite Broadcasting Service (KT Skylife)**

(a) Competitors

The terrestrial broadcasting includes radio, television and terrestrial DMB. There are 33 broadcasters in Korea – two terrestrial broadcasting companies which offers both television and radio channels (KBS and MBC) and 11 provincial broadcasters including local MBC, EBS and SBS. 14 service providers offer only radio broadcasting. There are also six terrestrial DMB providers; KBS, MBC, SBS, YTN DMB, etc.

The paid-TV market is segmented by the operator base such as cable operators, satellite broadcasters and IPTV providers. Cable operators are again divided into cable TV operators and relay wired broadcasting operators. Moreover, there are two satellite service providers; KT Skylife (launched its service in March 2002) and TU Media (launched its service in May 2005) which was merged with SK Telink in November 2010. The IPTV service was first commercialized in November 2008 after the regulator licensed in September 2008. Currently, there are three IPTV service providers (KT, LGU+ and SK Broadband) and its service is regulated by different regulations from those of cable TV business and satellite broadcasting business.

(b) Market Entry Requirements

Its regulation seems one of the entrance barriers in the paid-TV market. Not only that, paid-TV operators need to build economy of scales and to secure networks and contents sourcing.

(c) Factors of Competition

Main competing factors are channel availability, advertising and program production. Securing meaningful market share is also crucial for IPTV providers to be successful. Additionally, market share, vertical integration and regulatory environment are also other important aspects in the competitive dynamics.

(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 (IPTV 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 the Company

(1) Market Characteristics and Classification of Businesses

(a) Market Characteristics

■ Telecommunication (KT, KT Powertel)

The Korean communications market is currently experiencing stagnant growth as major services, including fixed-line telephony, broadband internet and mobile communications, have reached maturity, caused in part by intense competition in the industry. KT is also facing a difficult business environment with fixed-mobile substitution and price competition. Despite of the unfavorable environment, KT has made continuous efforts for cost-cutting and innovation of customer values. As a result, KT has maintained 7,823 thousands of broadband subscribers, 15,700 thousands of PSTN subscribers and 16,563 thousands of mobile subscribes as of end-2011.

Considering the highly saturated mobile phone market in Korea (105.5% with 5,251 thousands subscribers as of end-2011), growth potential 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 had not only successfully switched the paradigm of competition from voice- to data-centered services by exclusively introducing Apple's iPhone to the Korea market but also enhanced its competitiveness by introducing emerging devices including iphone4 and ipads. KT is leading the market in terms of smartphone penetration in Korea with 7.65 million (46% of KT's mobile subscribers) of smartphone subscribers as of end-2011. KT introduced the unlimited data plan in order for customers to enjoy more data services, which were covered with differentiated service quality by utilizing 3W (WCDMA, WiFi, WiBro) networks. In addition, KT is making its best efforts to deploy LTE networks to maintain its competitive advantage.

In the PSTN business, KT owns 84.3% of market share with its high brand value and loyalty of customers. However, the market share has been continuously declined with intensified market competition. Competitors introduced fixed-mobile bundle services and focus on PSTN marketing with competitive price plans. PSTN revenue should continue to decline because of the fixed-mobile and voice-data substitution trends. Nevertheless, KT has been trying to mitigate its revenue decline through various price plans and valuable customer services with the CRM system.

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

In order to maximize the fixed-mobile synergy, KT has introduced diverse bundling plans such as 'olleh Toong', 'Unlimited plan for family', 'Family sponsor', and 'olleh together'. KT also launched 'ucloud' service and 'olleh KT club' which is a customer loyalty program for both fixed and mobile subscribers.

■ **Credit Cards Business (BC Card)**

BC Card's main businesses include the recruit of credit card merchants, processing transaction of credit card payments, and credit card issuing as a surrogate for credit finance corporations under Specialized Credit Financial Business Act. In addition, BC Card is providing services to card holders such as money transfer, insurance, telecommunication sales and travel business.

■ **Online contents creation and e-commerce (KT Hitel)**

Due to the emergence of real-time web services such as twitter and facebook, our existing main users, typically in their teens or early twenties, are less active in the wired internet market. Therefore, it is necessary to adjust our path-dependent business models and to update our service strategy. In addition, mobility environment has been activated in earnest due to the widespread adoption of smartphones and emergence of cloud computing services that do not rely on devices. Our company's strategic aim has shifted from being 'wired portal centric' to a 'Smart Mobile' strategy which is focused on the mobile internet market. And, our company has launched a variety of mobile internet services such as 'Pudding Camera', 'Pudding Face Recognition', 'I'm In' and 'voice 114'. The Pudding series (Pudding camera and Pudding face recognition) have reached 17 million downloads and 'I'm In' is the market leader amongst local based SNS services. The company is perceived to firmly entering into the mobile internet market. In addition, our company is breaking new ground in the contents service market following the successful launch of 'Playy', an N-screen service which makes it possible to see the same content regardless of which device you use.

■ **Security and Guards (KT Telecop)**

So far, security companies have focused on price competition in an attempt to increase market share. In the future, it is expected that quality centric competition, rather than price driven competition, will intensify. We anticipate the launch of numerous new products and various additional services. Moreover, competition for skilled personnel to strengthen sales force seems likely to increase. KT Telecop provides personnel guard, CCTV and access control through machinery security as an individual base or an integrated system. It also provides BMS service in connection with customer's ERP system. Based on these services KT Telecop is pursuing differentiated strategies by expanding into video security, in-building and FM businesses.

■ **Lease and Corporate Loan (KT Capital)**

KT Capital was established in December 2006 to promote KT's synergies with other industries. Since then, KT Capital has been offering various machinery leases and new tech financing services. Installment finance was mainly involving automobiles but KT Capital has recently expanded its business to include installment financing for construction machinery as well. As for the synergy project with KT, KT Capital is now offering BTL (Build Transfer Lease) projects that offer investments for new technology.

■ **Satellite Broadcasting (KT Skylife)**

KT Skylife is leading the market with its competitive edge in HD channels and the hybrid service with KT's IPTV. Moreover, its strong stance in the distribution led the subscribers to increase over 3 millions. As a result, new subscriber additions were 710 thousand in 2010 to the total subscriber base of 2.83 million and 430 thousand in 2011 to the total subscriber base of 3.26 million.

(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

■ **Telecommunication (KT, KT Powertel)**

Category	Operator	Market Share (%)		
		2011	2010	2009
Local Telephone (On the Basis of the Number of Subscribers)	KT	84.3	85.7	86.3
	SK Broadband	13.3	12.2	11.7
	LG U+	2.4	2.1	2.0
Mobile Telephone (On the Basis of the Number of Subscribers)	KT	31.5	31.6	31.3
	SK Telecom	50.6	50.6	50.6
	LG U+	17.9	17.8	18.1
Broadband internet (On the Basis of the Number of Subscribers)	KT	43.8	43.1	42.5
	SK Broadband	23.5	23.1	23.5
	LG U+	15.7	16.1	15.4
	Service Operators	17.0	17.7	18.6
TRS (On the Basis of the Number of Subscribers)	KT Powertel	96.4	96.0	95.8
	Regional operators	3.6	4.0	4.2

- The above data were provided by the Korea Communications Commission (www.kcc.go.kr).
- Broadband internet market share of SK Broadband includes SK Telecom's resale subscribers.
- TRS regional operators include T-on Telecom, Powertel TRS and Daesung Global Networks.

■ **Credit Cards Business (BC Card)**

Category	2011	2010
Card transaction M/S	26.2%	29.4%

- Source: BC Card's internal data

■ **Online contents creation and e-commerce (KT Hitel)**

Company	Domain	Market Share (%)		
		2011	2010	2009
NHN	Naver.com	32.2%	27.5%	25.3%
DAUM	Daum.net	20.2%	18.7%	18.3%
SK Coms	Nate.com	6.0%	7.2%	7.6%
KT Hitel	Paran.com	1.0%	1.6%	1.9%

- Source: Korean Click, December 2011. Based on PV (Page View) ratio of top 100 domains

■ **Security and Guards (KT Telecop)**

Category	Company	Market Share (%)		
		2011	2010	2009
Revenue	KT Telecop	16.06%	15.12%	12.37%
	S1	58.61%	58.89%	59.88%
	ADT caps	25.33%	25.98%	27.75%

➢ Source: Financial Supervisory Service, Electronics Disclosure System (dart.fss.or.kr)

■ **Lease and Corporate Loan (KT Capital)**

Market share information may be misleading as there are numerous players such as banks, securities firms and credit finance firms in the lease and corporate loan markets.

■ **Satellite Broadcasting (KT Skylife)**

【Paid-TV market share (September 30, 2011)】

Companies	Digital Market		Analog Market		Total Paid TV	
	Subscriber	MS	Subscriber	MS	Subscriber	MS
T-broad	716,458	6.10%	2,509,595	8.12%	3,226,053	14.22%
CJ Hello Vision	1,143,376	9.74%	2,326,463	5.55%	3,469,839	15.29%
CNM	1,344,662	11.45%	1,364,637	0.49%	2,709,299	11.94%
CMB	48,143	0.41%	1,268,794	5.39%	1,316,937	5.80%
Hyundai HCN	433,756	3.69%	893,365	2.16%	1,327,121	5.85%
Total MSO	3,686,395	31.39%	8,362,854	21.72%	12,049,249	53.11%
Minor SO Total	326,942	2.78%	2,581,162	10.04%	2,908,104	12.82%
SO Total	4,013,337	34.17%	10,944,016	31.75%	14,957,353	65.92%
Satellite broadcasting	3,156,518	26.88%	-		3,156,518	13.91%
IPTV Total	4,574,874	38.95%	-		4,574,874	20.16%
KT	2,841,974	24.20%	-		2,841,974	12.53%
SK	924,854	7.87%	-		924,854	4.08%
LG U+	808,046	6.88%	-		808,046	3.56%
Total	11,744,729	100.00%	-		22,688,745	100.00%

※ 1. Digital Cable TV, Satellite TV, IPTV subscribers
※ 2. T-broad subscribers include T-broad and Qrix SO
※ 3. CJ subscribers include On-media SO
※ 4. CNM subscribers include GS subsidiary SO

➢ Sources: Cable - KCTA, Satellite broadcasting - Subscriber data submitted to KCC, IPTV - Company data, (4Q11 data unpublished)

(3) Status and Forecast of New Businesses

■ **Telecommunication (KT, KT Powertel)**

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 an ubiquitous environment, which can be accessed through various terminals regardless time and place. Furthermore, KT aims to offer customers convenient solutions that people 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 achieving their goals and enhancing their values.

Since introducing KT's VoIP in 1H 2008, KT has been expanding VoIP subscribers. As a result of continuous efforts to add new subscribers, KT reached 3.2 million VoIP subscribers as of December 31, 2011. Particularly, by acquiring 2 million of residential VoIP subscribers in 2010, KT has become the largest VoIP provider in Korea. 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 also introduced 'Home hub phone' which is integrated terminal combining PSTN, VoIP and AP. Furthermore, KT introduced 'smart home pad' for housewives and 'Kibot' for kids' edutainment (education + entertainment) in 1H 2011. By releasing those new smart devices, KT is trying to expand its smart home customer base through providing value-added content services through VoIP. 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.

4G WiBro, which stands for Wireless Broadband, enables portable devices accessing broadband internet services, allowing universal internet access with high transmission speeds through personal handsets or laptop computers. 4G WiBro was first commercialized in the world using Korea's own technology, and KT successfully provided its commercial 4G WiBro services in limited areas in 2006. Since April 2007, KT started to provide 4G WiBro services in the Seoul metropolitan area, including various major buildings and university campuses. In October 2008, the 4G WiBro service coverage was further expanded to 19 neighboring cities and its service speed became twice faster. Furthermore, in March 2011, KT expanded its 4G WiBro service coverage to 82 cities nationwide and major highways, offering the world's first nationwide data-only network service.

4G WiBro is the first commercialized 4th generation wireless broadband internet technology in Korea. Its download speed is maximum 40.3Mbps which is about 3 times faster than those of HSDPA/HSUPA 3G networks. KT's nationwide 4G WiBro coverage is about 88% in the population base, which is significantly higher than those in major developed countries such as USA (36%) and Japan (70%). Currently, anyone may enjoy KT's 4G WiBro service with personal computers, WiBro-compatible laptop computers, WiBro phones (WCDMA mobile phones with WiBro service), portable media players, navigation devices or Dongle (a USB device connecting to any laptop computer). In addition, "Egg", which is a portable access point (AP) device launched at the beginning of 2009, enables customers to enjoy the WiBro service with various Wi-Fi embedded devices. KT will continuously expand its array of digital devices that are compatible with WiBro services. With explosively increasing data traffics, KT's 3W network strategy is essential for success and the value of 4G WiBro will become even more important.

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. Also, olleh TV service provides traditional internet services, such as information searches, games, message functions, and shopping, and VOD services, which allow users to watch a variety of contents, such as movies, dramas and educational programs. From 2H 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 after granting of the IPTV business license to KT on September 8, 2008, KT has been able to provide real-time broadcasting IPTV services starting November 17, 2008. KT provides 137 IPTV channels (in addition to 30 audio channels), about 110,000 VOD programs and 143 two-way services as of December 31, 2011. In February 2010, KT introduced the world's first Open IPTV, in which KT has broadcasted channels and VODs produced by its subscribers. Further, KT launched 'olleh TV now' in April, 2011 for subscribers to watch IPTV's contents with various devices such as smartphones and pads.

Finally, KT plans to expand its corporate customer market not only limited to the domestic but also to overseas by fostering Global/ICT/Convergence businesses and developing IT solutions such as Mobile Office and Cloud Computing.

■ Credit Cards Business (BC Card)

BC Card is expanding its business into new areas such as standardization and commercialization of the next-generation mobile cards, C-POS (Cloud POS) business and payment processing in traditional markets. In addition, it expects to increase profits by innovating the payment processing.

■ Online contents creation and e-commerce (KT Hitel)

In 2011, mobile services such as I'm in (the market leading domestic location based service), Pudding series and voice 114 have successfully established firm positions in the market. In the future, we will make efforts to strengthen partnership with operators, handset manufacturers and contents owners. The company plans to expand its base to build and to invigorate convergence content services (PLAYY) that can deliver contents to various devices such as smart TVs, etc.

■ Security and Guards (KT Telecop)

KT Telecop has reduced the price burden on small retailers and homeowners by launching economical 'Smart CCTV' and 'Smart Guard'. And also, it provides secured and convenient services with features such as video surveillance via mobile phones and PCs, automatic light detected systems and remote video monitoring. In addition, KT Telecop launched 'Kids View' to provide nurseries with a specialized video surveillance service.

In the future, the market is expected to grow into the integrated security areas including personnel guards, SI and BMS. And, eventually, it is expected to penetrate into the total safety management industry by blending with neighboring industries.

■ **Lease and Corporate Loan (KT Capital)**

In 2011, KT Capital focused on maintaining financial stability to prepare for the future growth. With this foundation, KT Capital will enhance its business spectrum by focusing on the risk management and upgrading the customer management system. KT Capital will also differentiate its business from competitors by specializing in the machinery lease services and investments in the new technology. Moreover, KT Capital plans to strengthen its ties with BC Card in order to advance in the convergence business areas.

■ **Satellite Broadcasting (KT Skylife)**

KT Skylife expects its subscriber base to level up in 2012 as the Korea government plans to postpone the analog broadcasting services by the year-end by digitalizing all channels. KT Skylife offers 100 HD channels as of the end-2011, increased from 93 channels in September 2011.

Since the beginning of 2010, KT Skylife offered world's first 24-hour 3D channel 'Sky3D', and completed 3D production system in May 2010. In order to promote 3D contents production, KT Skylife has invested KRW 5bn along with its affiliated Korea HD Broadcasting to secure 3D production and to purchase 3D editing equipment.

※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. Main Products and Services

A. Status of Main Products

■ **Telecommunication (KT, KT Powertel)**

- ✧ **KT**

【Performance in Terms of Revenue】 (Unit: KRW million)

Business category	2011	2010
Merchandise sales	4,201,178	3,918,796
Service revenue	15,122,455	15,632,767
Others	843,184	366,815
Total	20,166,817	19,918,378

➢ Adopting IFRS from FY2011, results of FY2010 are recalculated from K-GAAP into IFRS.

✧ **KT powertel**

(Unit: KRW million)

Business Unit	Revenue type	Category		2011	2010
Telecommunication	Service	TRS	Export	245	302
			Domestic	113,629	110,877
			Total	113,874	111,179
	Merchandise	Mobile handset	Export	0	0
			Domestic	12,885	16,036
			Total	12,885	16,036
Total			Export	245	302
			Domestic	126,514	126,912
			Total	126,759	127,214

➢ Adopting IFRS from FY2011, results of FY2010 are recalculated from K-GAAP into IFRS.

■ Credit Cards Business (BC card)

(Unit: KRW billion)

Category	2011	2010
Card revenue	223.6	223.2
Credit card processing	2,725.6	2,687.8
Additional Service	121.2	99.0
ETC	66.9	62.5
Total	3,137.3	3,072.5

➢ Adopting IFRS from FY2011, results of FY2010 are recalculated from K-GAAP into IFRS.

■ Online contents creation and e-commerce (KT Hitel)

(Unit: KRW million)

Division	Revenue type	2011	2010
Internet based platform service	Internet Service	11,073	11,587
	Contents	57,194	58,489
	Platform /operation	62,456	80,037
B2B electronics commerce	B2B	316,431	151,068
	B2C	13,397	8,481
	Other	2,481	1,929
Total		463,032	311,591

➢ Adopting IFRS from FY2011, results of FY2010 are recalculated from K-GAAP into IFRS.

■ Security and Guards (KT Telecop)

(Unit: KRW million)

Category	2011	2010
Security service revenue	260,950	216,400
Other revenue	223	251
Total	261,173	216,651

➢ Adopting IFRS from FY2011, results of FY2010 are recalculated from K-GAAP into IFRS.

■ **Lease and Corporate Loan (KT Capital)**

(Unit: KRW million)

Services	2011	2010
Installment	6,321	5,557
Lease	73,870	64,341
Loan	107,080	106,360
New Tech Finance	6,388	5,958
Others	29,236	8,550
Total	222,895	190,766

➢ Adopting IFRS from FY2011, results of FY2010 are recalculated from K-GAAP into IFRS.

■ **Satellite Broadcasting (KT Skylife)**

(Unit: KRW million)

Business	Revenue	Items	2011	2010
Satellite Broadcasting	Service	Domestic	464,376	423,958
		Overseas	-	-
Total		Total	464,376	423,958

➢ Adopting IFRS from FY2011, results of FY2010 are recalculated from K-GAAP into IFRS.

B. Price Trend of Main Products

■ **Telecommunication (KT Powertel)**

When based on the general plan, the basic monthly fee is Won 17,000. And, there are additional fees of Won 14 per 10 seconds on individual radio calls, Won 24 on group calls, and Won 17 on mobile voice calls.

■ **Credit Cards Business (BC Card)**

(Unit: %)

Category	2011	2010	2009
Member Store fee rate	1.50 ~ 4.50	1.50 ~ 4.50	1.50 ~ 4.50
Installment fee rate	11.00 ~ 18.50	11.00 ~ 18.50	11.00 ~18.50
Cash service interest rate	15.00 ~ 25.92	15.00 ~ 25.92	15.00 ~ 25.92
Card loan(credit loan)	-	-	11.50 ~ 18.00

■ **Online contents creation and e-commerce (KT Hitel)**

The company provides a variety of services such as advertising, game, music, video, etc. in the area of the portal sites and contents. It is not possible to calculate the price per item for all these services.

■ **Security and Guards (KT Telecop)**

Classification	2011	2010
Video security service	<April, 2011> ㅇ Smart Guard launched Customized security service for HOME/SOHO customers, which minimized damage to interior through IP based video equipment and security machinery equipment and also high tech video security service which makes it possible to check the images of premises with PC or mobile phone through IP cameras. <October, 2011> ㅇ Telecop i Self launched Service that leases CCTV equipment to customers who only require video surveillance with which the customer can check real-time images of their business place through their PC or mobile phone. ㅇ Home security service launched Convergence service based on smart home pad that provides self-assured services and roadside assistance, targeted at one person households and middle aged housewives. <December, 2011> ㅇ Inavi safe launched Service that tracks the location of LBS based handset user and dispatch service in emergency situations	<November, 2010> ㅇ Smart CCTV launched Video security service that provides surveillance/recording during normal and sends warning texts to the designated mobile phone in the event of strange signals during the owners absence. <December, 2010> ㅇ Kids View launched Reassuring image service specially designed for nurseries. It monitors the activities of children for parents who are members.

■ **Lease and Corporate Loan (KT Capital)**

Credit finance service pricing trend is not available due to the characteristics of such business.

■ Satellite Broadcasting (KT Skylife)

(Unit: Won)

Services				2011				2010				2009			
				1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Skylife	HD Platinum (Plus)	3yrs	Subscription	33,000	33,000	33,000	33,000	30,000	30,000	33,000	33,000	30,000	30,000	30,000	30,000
			Install fee	-	-	-	-	-	-	-	-	-	-	-	-
		5yrs	Subscription	30,000	30,000	30,000	30,000	28,000	28,000	30,000	30,000	28,000	28,000	28,000	28,000
			Install fee	-	-	-	-	-	-	-	-	-	-	-	-
	HD Blue	3yrs	Subscription	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	17,000	17,000	17,000	17,000
			Install fee	-	-	-	-	-	-	-	-	-	-	-	-
		5yrs	Subscription	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	15,000	15,000	15,000	15,000
			Install fee	-	-	-	-	-	-	-	-	-	-	-	-
	HD Green	3yrs	Subscription	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	12,000	12,000	12,000	12,000
			Install fee	30,000	-	-	-	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
		5yrs	Subscription	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	11,000	11,000	11,000	11,000
			Install fee	30,000	-	-	-	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
	HD On	3yrs	Subscription	9,000	10,000	11,000	11,000	N.C	N.C	N.C	N.C	N.C	N.C	N.C	N.C
			Install fee	30,000	30,000	30,000	30,000								
		5yrs	Subscription	8,000	9,000	10,000	10,000	N.C	N.C	N.C	N.C	N.C	N.C	N.C	N.C
			Install fee	30,000	30,000	30,000	30,000								
OTS (Flat rate service launched in 2Q10	Economy	3yrs	Subscription	12,000	12,000	12,000	12,000	14,400	12,000	12,000	12,000	14,400	14,400	14,400	14,400
			Install fee	-	-	-	-	-	-	-	-	-	-	-	-
	Standard	3yrs	Subscription	15,000	15,000	15,000	15,000	18,000	15,000	15,000	15,000	18,000	18,000	18,000	18,000
			Install fee	-	-	-	-	-	-	-	-	-	-	-	-
	Premium	3yrs	Subscription	20,000	20,000	20,000	20,000	21,600	20,000	20,000	20,000	21,600	21,600	21,600	21,600
			Install fee	-	-	-	-	-	-	-	-	-	-	-	-

- *N.C : No contract sales

3. Matters Related to Revenue

A. Performance in Terms of Revenue

■ Telecommunication (KT, KT Powertel)

✧ **KT**

(Unit: KRW million)

Business category	2011	2010
Merchandise sales	4,201,178	3,918,796
Service revenue	15,122,455	15,632,767
Others	843,184	366,815
Total	20,166,817	19,918,378

➢ Adapting IFRS from FY2011, result of 2010 is recalculated from K-GAAP into IFRS.

✧ **KT Powertel**

(Unit: KRW million)

Business Unit	Revenue Type	Category		2011	2010
Telecommunication	Service	Frequency Trunked Communications	Export	245	302
			Domestic	113,629	110,877
			Total	113,874	111,179
	Merchandise	Mobile Handsets	Export	0	0
			Domestic	12,885	16,036
			Total	12,885	16,036
Total			Export	245	302
			Domestic	126,514	126,912
			Total	126,759	127,214

➢ Adopted K-IFRS from 2011 & 2010 results are readjusted in accordance with K-IFRS

■ Credit Cards Business (BC Card)

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(Unit: KRW million)

Category	2011	2010
Card revenue	2,236	2,232
Credit card processing	27,256	26,878
Additional Service	1,212	990
ETC	669	625

➢ Adopted K-IFRS from 2011 & 2010 results are readjusted in accordance with K-IFRS

■ **Online contents creation and e-commerce (KT Hitel)**

(Unit: KRW million)

Division	Revenue type	2011	2010
Internet based service	internet Service	11,073	11,587
	Contents	57,194	58,489
	Platform building/operation	62,456	80,037
B2B electronic commerce	B2B	316,431	151,068
	B2C	13,397	8,481
	Other	2,481	1,929
Total		463,032	311,591

➢ Adopted K-IFRS from 2011 & 2010 results are readjusted in accordance with K-IFRS

■ **Security and Guards (KT Telecop)**

(Unit : KRW million)

Category	2011	2010
Security service revenue	260,950	216,400
Other revenue	223	251
Total	261,173	216,651

➢ Adopted K-IFRS from 2011 & 2010 results are readjusted in accordance with K-IFRS

■ **Lease and Corporate Loan (KT Capital)**

(Unit: KRW million)

Services	2011	2010
Installment	6,321	5,557
Lease	73,870	64,341
Loan	107,080	106360
New Tech Finance	6,388	5,958
Others	29,236	8,550
Total	222,895	190,766

➢ Adopted K-IFRS from 2011 & 2010 results are readjusted in accordance with K-IFRS

■ **Satellite Broadcasting (KT Skylife)**

(Unit: KRW million)

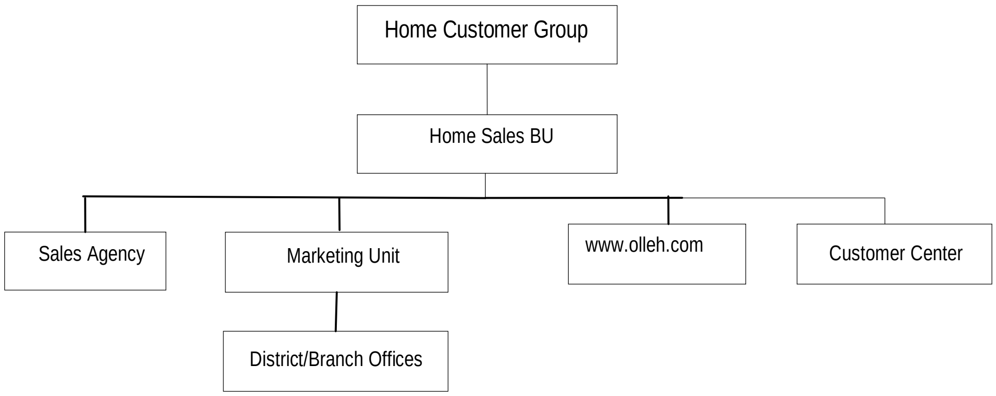
Business	Revenue	Items	2011	2010
Satellite Broadcasting	Services	Domestic	464,376	423,958
		Overseas	-	-
Total		Total	464,376	423,958

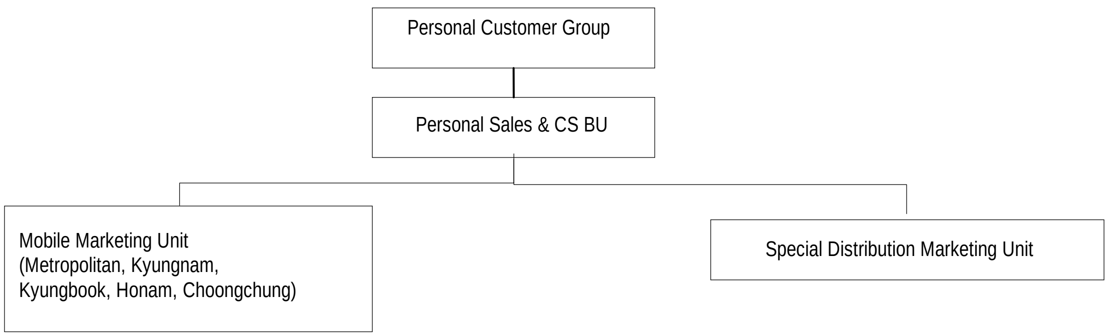
➢ Adopted K-IFRS from 2011 & 2010 results are readjusted in accordance with K-IFRS

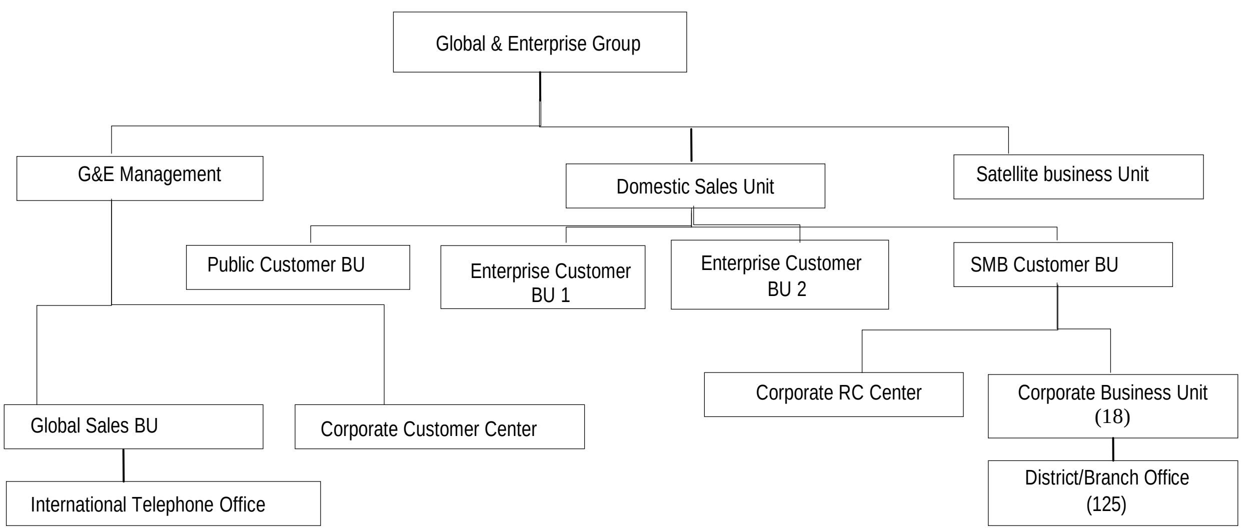
B. Routes and Methods of Sales

■ **Telecommunication (KT)**

(1) Marketing Organizational Structure (As of December 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

- Discounts of Service Fees in accordance with the Subscription Period

【Discount rates based on Contract Periods】

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

【Additional discounts after the 3-Year contract】

Category	After 3 Years	After 4 Years	After 5 Years	Note
olleh internet	2%	3%	5%	-
KORNET (Express/Premium)	2% (for additional 1 year)	3% (for additional 2 years)	5% (for additional 3 years)	When subscribers sign extended contracts

➢ No additional discounts are available for new subscribers signing after November 1, 2008.

【Additional discounts for olleh internet subscribers renewing contracts】

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 based on the subscription period (SHOW-king sponsor basic type)】

Monthly fee	Period of subscription		
	12 months	18 months	24 months
KRW 30,000 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

【Discounts for mobile Gold/i plan (SHOW-king sponsor for Gold/i type)】

Gold type plan	Voice 150	Voice 250	Voice 350	Voice 450	Voice 650	Voice 850	Voice 2000
Monthly discounts (Won)	2,500	5,000	7,000	11,000	12,000	14,000	25,000

* VAT excluded

【Monthly discounts for i plan】

i Type Plan	Slim	Lite/Talk*	Value	Medium	Special*	Premium
Monthly discounts (Won)	5,000	8,000	10,000	13,000	16,000	22,000

- Instead of offering handset subsidies, Smartsponsor is offering additional tariff discounts from KRW 6,000~11,000.
- i-talk and i-special plans are newly added (March, 1, 2010)

* VAT excluded

【Smartsponsor discount plans】

Type of plan	Basic fee	Amount of monthly discount			Amount of total discount		
		Year 1	Year 2	Year 3	After 3 years	Subscribed for 2 years	Subscribed for 3 years
Voice 150	27,500	9,350	11,550	13,750	2,750	250,800	415,800
Voice 250	34,000	13,200	15,400	17,600	5,500	343,200	554,400
Voice 350	44,000	15,400	17,600	19,800	7,700	396,000	633,600
Voice 450	54,000	19,800	22,000	24,200	12,100	501,600	792,000
Voice 650	66,000	20,900	23,100	25,300	13,200	528,000	831,600
Voice 850	74,000	23,100	25,300	27,500	15,400	580,800	910,800
i-slim	34,000	13,200	15,400	17,600	5,500	343,200	554,400
i-teen	34,000	13,200	15,400	17,600	5,500	343,200	554,400
i-light/talk	44,000	16,500	18,700	20,900	8,800	422,400	673,200
i-value	54,000	18,700	20,900	23,100	11,000	475,200	752,400
i-medium	64,000	22,000	24,200	26,400	14,300	554,400	871,200
i-special	78,000	25,300	27,500	29,700	17,600	633,600	990,000
i-premium	94,000	31,900	34,100	36,300	24,200	792,000	1,277,600
DIY 340	34,000	13,200	15,400	17,600	5,500	343,200	554,400
DIY 440	44,000	16,500	18,700	20,900	8,800	422,400	673,200
DIY 540	54,000	19,800	22,000	24,200	12,100	501,600	792,000
DIY 640	64,000	22,000	24,200	26,400	14,300	554,400	871,200
DIY 790	79,000	25,300	27,500	29,700	17,600	633,600	990,000
Style 270	27,000	9,350	9,350	-	-	224,400	-
Style 350	35,000	14,300	14,300	-	-	343,200	-
Style 450	45,000	17,600	17,600	-	-	422,400	-
Style 750	75,000	25,300	25,300	-	-	607,200	-
Style 950	95,000	33,000	33,000	-	-	792,000	-
Al-smart 340	34,000	12,100	12,100	12,100	5,500	290,400	290,400
Al-smart 440	44,000	15,950	15,950	15,950	7,700	382,800	574,200
Campus-smart 340	34,000	13,200	15,400	17,600	5,500	343,200	554,400
Campus-smart 440	44,000	16,500	18,700	20,900	8,800	422,400	673,200

【Mobile Bundling Plans】

(Unit: Won/Month, VAT excluded)

Type	Basic fee	Total amount of usage	Complementary beneficiaries			Additional beneficiaries		Number of SIM
			Voice (minute)	SMS	Discount rate (max)	Youth-only SMS	Bundling benefits	1
Mobile Toong (Single)	34,000	38,500	245	1,350	9%	-	Unlimited voice call time among family members	1~5
Mobile Toong (Small)	64,000	72,000~120,000	566	3,000	46%	500		
Mobile Toong (Medium)	94,000	122,000~170,000	1,019	5,500	44%	1,000		
Mobile Toong (Large)	124,000	172,000~220,000	1,481	8,000	43%	2,000		

【Unlimited 3G data plan】

Subscribers who signed up for the basic fees of 54,000 and over can use unlimited 3G data service with no additional charges.

(Unit: Won, Minute)

		Carryover data plans			Unlimited data plans			
Basic Fee		i-Slim	i-Talk	i-Lite	i-Value	i-Medium	i-Special	i-Premium
		34,000	44,000	44,000	54,000	64,000	78,000	94,000
Benefits	Voice	150	250	200	300	400	600	Unlimited on-net 800 minutes free off-net
	SMS	200	300			400	600	1,000
	Data	Data roll-over			Unlimited 3G data			
		100MB	100MB	500MB				
		Unlimited WiFi data						

(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

- Attracting high ARPU users by offering free WiFi/uCloud services to subscribers who signed for higher plans.

- 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

- Establishing an order of distribution by adapting “Fair price” system

(b) 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.

(c) 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 value-added services
- Promote specialized high-quality and optimized products by analyzing patterns of users

(d) Telephone Service

- Minimize PSTN line loss by customer segmentation
- Provide more benefits to customers by bundling services.
- Promote KT's VoIP phones by offering home hub 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.

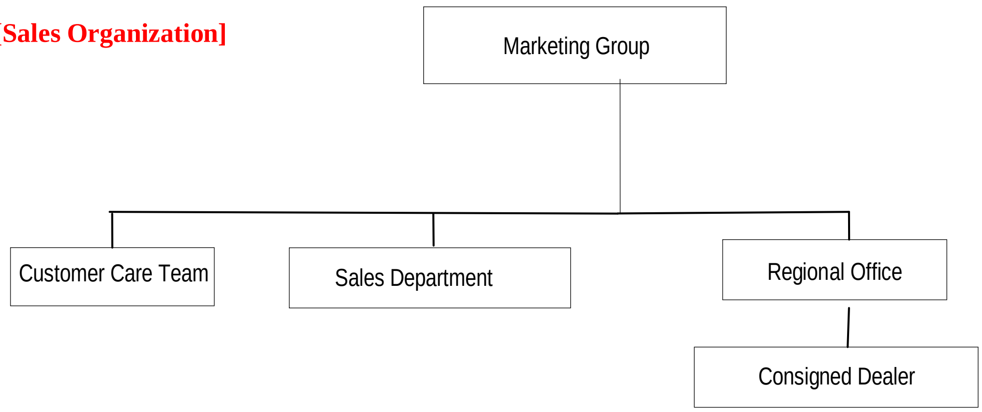
(e) WiBro Service

- Enhance service competitiveness with nationwide coverage of 82 cities and position as 'mobile WiFi' with 10,000 of nationwide WiFi hot zones.
- Plan to expand WiBro emerging devices(Pad, WiMax imbedded device, stc)
- Increase subscriber base by expanding distribution channels and terminal competitiveness.
- Design various plans such as 3G/LTE bundling plan, fixe-mobile bundling plan, and WiBro only plan, etc.
- Improve brand value by proactive promotion and marketing

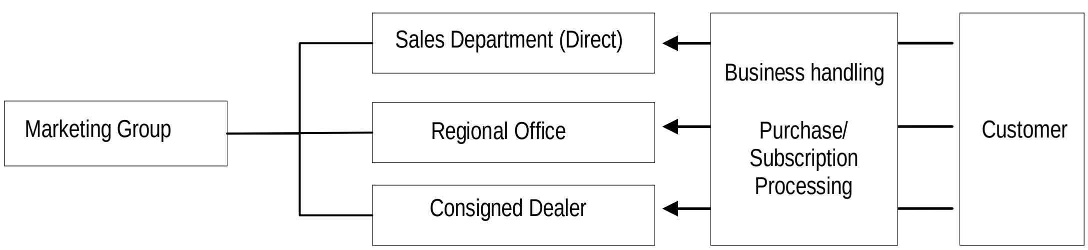
■ **KT Powertel**

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

[Sales Organization]



[Sales Route]



(2) Methods and Conditions of Sales

- Through direct sales organization and cosigned dealers, KT Powertel is selling TRS services (voice and wireless data products) to customers.
- KT Powertel is providing cosigned dealers with management fee of 7% of customer charges for 60 months. After 60 months, 7% of customer charges are paid to cosigned dealers as long-term customer care fee.

■ **Credit Cards Business (BC card)**

BC card performs credit card (including debit card) issuing and payment processing based on the contract with credit card companies. BC card targets to provide card issuing and payment processing services to more credit card companies.

■ **Online contents creation and e-commerce (KT Hitel)**

Most of the sales made through the online and the revenue from portals and contents occurs from the final consumers on the internet.

■ **Security and guards(KT Telecop)**

Our sales channels which consist of internal sales staff and outside distribution network(allied store, special partners, etc.) attract new customers.

■ **Lease and Corporate Loan (KT Capital)**

KT Capital is currently conducting sales through its human resources and does not offer individual finance services.

■ **Satellite Broadcasting (KT Skylife)**

KT Skylife currently has four different sales channels; 1) local channels; 2)nationwide channels; 3) customer centers and 4) online marketing channels. There are 160 sales offices which are organized into 6 local offices (2 in Seoul, Daejeon, Busan, Gwangju). Moreover, KT Skylife is offering 'olleh TV Skylife', which is a hybrid service of satellite broadcasting and IPTV through KT's inbound and outbound sales channels.

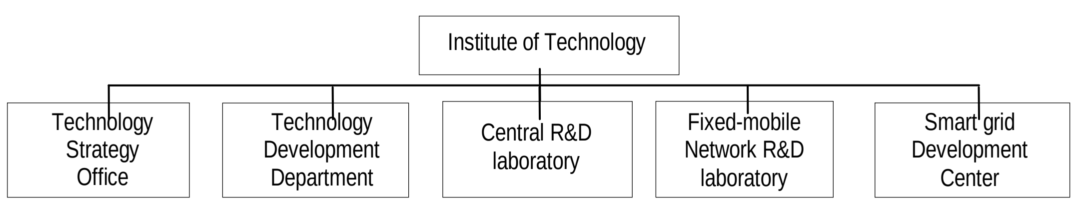
4. Research and Development Activities

A. Research and Development Activities

■ **Telecommunication (KT, KT Powertel)**

(1) R&D Organization Structure

- Structure (As of January 13, 2013)



- Main Mission

- General managing of R&D center and suggesting mid-to-long term technology evolution
- Support for common platform for enterprise and mid-to-long term technology development for new business
- Core technology development and capacity building
- Providing strategic direction of fixed-mobile networks and developing operational support systems for infra structure and commercialization
- Green IT planning, business planning/development for Smart grid and Green Energy

(Unit: KRW million)

Category		2011	2010
Raw Materials		-	-
Labor Costs		24,018	47,156
Depreciation		15,158	77,778
Commissions		2,437	3,870
Others		266,982	403,248
Total R&D Costs		308,596	532,052
Accounting Treatment	Research and Ordinary Development Costs	153,131	289,531
	Development Costs (Intangible Assets)	155,465	242,521
Percentage of R&D Costs over Revenue		1.53%	2.67%

➢ Adopting IFRS from FY2011, results of FY2010 are recalculated from K-GAAP into IFRS.

■ Online contents creation and e-commerce (KT Hitel)

(1) R&D Organization Structure

The technology lab was established for the purpose of excavating a promising future source technology and solutions to strengthen the competitiveness at the changing IT market.

A recent reorganization, combined the staff and cloud-related technologies which had previously operated in several separate departments in the newly established 'Cloud Institute'. This institute has a total of 23 researchers as of March, 2012 and these researchers are conducting R&D to aid the internalization of core competencies such as cloud solutions and large dispersion technologies in concurrence with service field offices on a project basis.

(2) R&D costs

(Unit: KRW million)

Category		2011	2010
Raw Materials		-	-
Labor Costs		500	1,378
Depreciation		57	28
Commissions		-	-
Others		203	321
Total R&D Costs		760	1,727
Accounting Treatment	Research and Ordinary Development Costs	1,727	289,531
	Development Costs (Intangible Assets)	-	242,521
Percentage of R&D Costs over Revenue		0.58%	1.15%

➢ Adopting IFRS from FY2011, results of FY2010 are recalculated from K-GAAP into IFRS.

B. Research and Development Performance

■ Telecommunication (KT)

Category	R&D Performance	Activities & Expectations
3W (WCDMA, WiBro, WiFi) / LTE	Development of LTE handset and USIM	-Development of Handset and USIM standard for LTE -Enhance handset competitiveness by utilizing KT's fixed-mobile network
	Development of Android ANDSF Client	-Access optimal Wi-Fi network by receiving offload policy from network -Reducing WCDMA network load and ensuring voice quality
	Development of TV sensor and transceiver	-Providing test service for idle TV bandwidth in November 2011 -Apply for new wireless internet service once idle bandwidth commercialized
	Development of Smart GPS Anti-Jammer commercial prototype	-Stable network operation against GPS-jamming -Planning optimization for WiBro/LTE DU centers
SoIP / FMC	Development and commercialization of VOC separate billing	-Minimizing loss of billing by applying 3G rate during handover -Minimizing billing settlement issues for toll-free calls by not providing handover
	Development and commercialization of SoIP MCID	-Service differentiation with image CID service -Additional revenue from paid-subscription service
	Development of Call 2.0 service	-Contributing to increasing service activation and subscriber through shared service on smart home pads - Contributing to increasing service activation and subscriber through IPTV call, HD video conference and shared services
Media	Development and commercialization of olleh TV now	-Increasing revenue by providing mobile IPTV service based on emerging devices such as i-phones and i-pads
	Commercialization of smart auto completion	-Applied semantic search platform to olleh TV for the first time in Korea -Expected revenue increase with service differentiation and various contents
	Development of olleh music++ solution	-Develop matching technology for music contents on customer's terminal and KT's platform - increasing revenue and enhancing services through music contents related information search and recommendation
	Development of voice search technology for olleh TV contents	-Search contents in speech recognition on olleh tv guide map -Improving contents consumption and enhancing customer satisfaction
Platform / Infra	Commercialization of pneumatic laying fiber optic cable equipment	-Improving pipeline ingestion rate cost-cutting for fiber deployment by laying fiber-optic cable pneumatically
	Development of video conferencing solutions	-Video conference call between other devices are linked to each other like telephones -Commercialization video conference call service within the enterprises and inter-enterprises
	Building Smart Grid operation center platform	-Application renewable energy operating algorithm to Daegu -Promoting technology development for remote metering project in overseas market
Convergence Service	Disaster communication and mobile Ad-Hoc technology research	-Suggesting the direct communication terminal technology for wireless communication network for national disaster safety
	Development of remote consultation for smart phones	-Customer care service solution through smartphone remote control -Time saving for customer VOC processing and improving customer satisfaction
	Development of home FMC client for i-phones	-Development of FMC call function with i-phone in Wi-Fi zone -Joining 070 code feature on device client and providing consonants search function -Maximizing FMC subscribers through FMC function on i-phone
	Commercialization of Family Social Service	-Commercialized as a main service application on smart home pad
Network Management Solution	DDoS attack detection and control technology	-Providing secure network services environment through early response to DDoS attack -Dramatic reducing cost of building response system to DDos attack with independent technology

	Building integration platform for network operation and management system	-Legacy system integration followed by network convergence and implementation of Green IT -OPEX savings with rapid response to customer complaints and improvement of operational efficiency
	Development of integrated management of customer terminal	-Building integrated customer services and support platform for terminal management, quality management and fault monitoring -OPEX savings by improving management system for terminal and service quality

■ Online contents creation and e-commerce (KT Hitel)

As of December 2011, we are developing large dispersion technologies to secure the core competencies which are necessary for cloud-related business in the future.

5. Other Matters Necessary for Making Investment Decisions

A. Intellectual Property Rights

■ Telecommunication (KT)

KT holds 5,350 domestic patents and 489 overseas patents as of December 31, 2011.

III. Financial Information

1. Summary of Financial Statements (Consolidated)

(Unit: KRW million)

Classification	2011	2010
Current Assets	9,790,659	7,519,447
· Cash and Cash Equivalents	1,445,169	1,161,641
· Trade and Other Receivables	6,158,914	4,193,377
· Inventories	674,727	710,617
· Other Current Assets	1,511,849	1,453,812
Non-current Assets	22,294,750	19,422,156
· Trade and Other Receivables	1,723,415	1,125,336
· Tangible Assets	14,022,695	13,398,272
· Investment Property	1,159,105	1,146,250
· Intangible Assets	2,643,485	1,418,920
· Investments in Jointly Controlled Entities and Associates	529,184	638,061
· Other Non-Current Assets	2,216,866	1,695,317
Total Assets	32,085,409	26,941,603
Current Liabilities	8,745,125	7,884,673
Non-Current Liabilities	10,802,475	7,702,875
Total Liabilities	19,547,600	15,587,548
Capital Stock	1,564,499	1,564,499
Share Premium	1,440,258	1,440,258
Retained Earnings	10,219,633	9,466,168
Accumulated Other Comprehensive Expense	(22,865)	(79,370)
Other Components of Equity	(1,497,289)	(1,258,293)
Non-Controlling Interests	833,573	220,793
Total Shareholders' Equity	12,537,809	11,354,055

(Unit: KRW million)

Classification	2011	2010
Operating Revenue	21,990,051	20,326,275
Operating Profit	1,973,721	2,007,871
Profit for the Period from the Continuing Operations	1,281,151	1,284,904
Profit for the Period	1,452,019	1,314,884
Number of Consolidated Companies	52	35

2. Summary of Financial Statements (Separate)

(Unit: KRW million)

Classification	2011	2010
Current Assets	6,375,600	5,800,060
· Cash and Cash Equivalents	790,107	901,308
· Trade and Other Receivables	4,832,373	3,944,795
· Other Financial Assets	57,473	167,093
· Inventories	514,076	593,479
· Other Current Assets	181,571	193,385
Non-Current Assets	20,078,007	18,545,055
· Trade and Other Receivables	1,607,843	1,037,862
· Other Financial Assets	216,078	178,877
· Property and Equipment	13,305,475	12,957,143
· Investment Property	1,118,757	1,129,175
· Intangible Assets	1,745,976	1,333,789
· Investments in Subsidiaries, Associates and Joint Ventures	1,577,406	1,341,090
· Deferred Income Tax Assets	467,890	537,342
· Other Non-Current Assets	38,582	29,777
Total Assets	26,453,607	24,345,115
Current Liabilities	6,035,682	6,842,087
Non-Current Liabilities	8,683,992	6,411,891
Total Liabilities	14,719,674	13,253,978
Capital Stock	1,564,499	1,564,499
Share Premium	1,440,258	1,440,258
Retained Earnings	10,008,964	9,399,171
Accumulated Other Comprehensive Income	-28,684	-56,165
Other Components of Shareholders' Equity	-1,251,104	-1,256,626
Total Shareholders' Equity	11,733,933	11,091,137

(Unit: KRW million)

Classification	2011	2010
Operating Revenue	20,166,817	19,918,378
Operating Profit	2,025,926	2,003,571
Profit for the Period	1,289,055	1,248,846

IV. Auditors' Opinion

1. Auditors' opinion on the consolidated financial statements

A. Auditor's opinion on the consolidated financial statements

FY 2011	FY 2010	FY 2009
Samil PwC	Samil PwC	Deloitte Anjin LLC

B. Audit (or review) Comments

Fiscal Year	Audit (or review) Comments	Issues noted
2011	unqualified	Not applicable
2010	unqualified	Not applicable
2009	unqualified	Not applicable
2008	unqualified	Not applicable

2. Compensation to external auditors for the last three fiscal years

A. Audit services contract

(Unit: KRW million)

Fiscal Year	Auditor	Contents	Compensation	Total Time
2011	Samil PwC	Review interim financial statements	2,492	43,709
		Audit of Separate financial statements		
		Audit of the consolidated financial statements		
		20-F Filing		
2010	Samil PwC	Review interim financial statements	2,439	36,159
		Audit of Separate financial statements		
		Audit of the consolidated financial statements		
		Audit of financial statements based on US-GAAP		
2009	Deloitte Anjin LLC	Review interim financial statements	2,786	41,545
		Review of the Interim consolidated financial statements		
		Audit of Separate financial statements		
		Audit of the consolidated financial statements		
		Audit of financial statements based on US-GAAP		

V. Management and Affiliated Companies

1. Overview of the Board of Directors and Committees

A. Matters on the Board of Directors

(1) Organization

As of March 31, 2012, 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, CEO recommendation 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. 27, 2011	Proposal on contract for Twitter 3rd-party Service	Re-Proposition
		Approval of financial statements of the 29th term	Original proposal approved
		Business reports of the 29th Term	Original proposal approved
		Plan for issuance of bonds for 2011	Original proposal received
Second	Feb. 10, 2011	Proposal on the amendment of the articles of incorporation	Original proposal received
		Proposal on the 'X Project'	Original proposal received
		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 members and limit on remuneration of Executive Director	Original proposal approved
		Proposal on the amendment of the severance payment regulation for senior management	Original proposal approved
		Approval of financial statements of the 29th term	Original proposal approved
		Convocation of annual general meeting of shareholders of 29th term	Original proposal approved
		Report on operational condition of internal accounting management system	Original proposal received
		Audit committee's report on operational condition of internal accounting management system	Original proposal received
		Agreement on the recommendation of non-independent Directors	Original proposal approved
		Recommendation of Audit committee's candidate	Original proposal approved
Third	Mar. 11, 2011	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
		Proposal on 'C Project'	Original proposal approved
		Plan for development of Gimhae Logistics Center	Original proposal approved
		Plan for 2nd phase development of Seoul Branch Office	Original proposal approved
		Proposal on Paid-in Capital Increase for KT capital	Original proposal approved
		Report on transactions under KRW 15 billion with other entities for 2010	Original proposal approved
		Conversion of Skylife's convertible bonds and preferred shares to common stock	Original proposal approved
		Report on current status and plan for improvement of management performance of subsidiary companies	Original proposal received
		Proposal on contract for Twitter 3rd-party Service	Original proposal approved

Fourth	Mar. 21, 2011	Approval on the payment for reallocating frequency acquisition	Original proposal approved
		Termination of 2G mobile service	Original proposal approved
Fifth	Apr. 29, 2011	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 2011	Original proposal approved
		Change to Content investment funds Pool	Original proposal approved
Sixth	May. 04, 2011	Proposal on Marshall project plan	Original proposal approved
Seventh	May 19, 2011	Proposal on donation to Korea Youth Entrepreneurship Foundation	Original proposal approved
		Proposal on Donation	Original proposal approved
		Plan for sustainable growth in 2011	Original proposal approved
		Report on separate financial statement of the first quarter of 2011 fiscal year	Original proposal accepted
		Report on consolidated financial statement of the first quarter of 2011 fiscal year	Original proposal accepted
Eighth	July 22, 2011	Plan for acquisition of new frequency	Original proposal approved
		Plan for termination of 2G mobile service	Original proposal approved
Ninth	Aug. 25, 2011	Establishment of KT-SBTM Joint Venture	Original proposal approved
		Expansion of fund investment for Internalizing the core competencies	Original proposal approved
		Report on operation performance of fund in the first half of 2011	Original proposal accepted
		Report on the performance of KT Estate and the Analysis of real estate values	Original proposal accepted
		Plan for real estate development of Dongdaemun/Deayun branch office	Original proposal approved
		Proposal on funds for internal labor welfare fund	Original proposal approved
		Utilization plan of account receivable for the social responsibility	Original proposal approved
		Donation to Korea Wireless internet Industry Association	Original proposal approved
		Report on separate financial statement of the first half of 2011 fiscal year	Original proposal accepted
		Report on consolidated financial statement of the first half of 2011 fiscal year	Original proposal accepted
		Proposal on the organization of committees under the Board of Directors	Chairman of BOD and members of committees appointed
		Proposal on Improvements of corporate governance	Original proposal approved
Tenth	Sep. 15, 2011	Alteration of plan for the paid-in Capital Increase for KT capital	Original proposal approved
		Approval of investment on frequency acquisition for WiBro business	Original proposal approved
Eleventh	Nov. 03, 2011	Proposal on investment and operation for the KT Smart Service Corporation	Original proposal approved
		Report on current status of subsidiary companies	Original proposal accepted
		Proposal on investment on company for developing Cloud service	Original proposal approved
		Proposal on increase of investment budget	Original proposal approved
		Report on separate financial statement of the third quarter of 2011 fiscal year	Original proposal accepted
		Report on consolidated financial statement of the third quarter of 2011 fiscal year	Original proposal accepted
Twelfth	Dec. 15, 2011	Management plan for KT and KT group of 2012	Original proposal approved
		Proposal on asset securitization of 2011	Original proposal approved
		Proposal on the organization of outside director nomination committee	Chairman and members of committees appointed
		Plan for operation of CEO candidate recommendation committee	Original proposal approved
		Proposal on management contract	Revised 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 16, 2012)	Purpose of Establishment and Authority	Note (Before March 16, 2012)
Corporate Governance Committee	4 Outside Directors, & 1 non-independent Directors	Choon Ho Lee (Chairperson) E. Han Kim Hae Bang Chung Sang Kyun Cha Hyun-Myung Pyo	Improvement of Corporate Governance	Choon Ho Lee (Chairperson) E. Han Kim Jeung Soo Huh Hae-Bang Chung Hyun-Myung Pyo
Evaluation & Compensation Committee	4 Outside Directors	Hyun Nak Lee (Chairperson) Choon Ho Lee Jong-Hwan Song Keuk-Je Sung	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) Byong Won Bahk Keuk-Je Sung Sang Kyun Cha	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'	Jong-Hwan Song (Chairperson) Chan-Jin Lee Byong Won Bahk Hyun Nak Lee
CEO Candidate Recommendation Committee	All Outside Directors & 1 non-independent Director	-	CEO Candidate Recommendation	E. Han Kim, Choon Ho Lee, Jong Hwan Song, Hae Bang Chung, Hyun Nak Lee, Chan-Jin Lee Byong Won Bahk, Hyun Myung Pyo
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			
			Choon Ho Lee	E. H Kim	Jeung Soo Huh	Hae Bang Chung
			Attendance 100%	Attendance 100%	Attendance 0%	Attendance 100%
			Voting Result			
May 3, 2011	Proposal on management plan of Corporate Governance Committee for 2011	Original proposal approved	For	For	Absent	For
Aug. 24, 2011	Proposal on improvement of corporate governance system	Original proposal accepted	For	For	-	For

※ Outside director Jeung Soo Huh resigned on August 23, 2011

Meeting Date	Agenda	Results of discussion	Independent and Non-Executive Directors			
			Choon Ho Lee	E. H Kim	Hae Bang Chung	Hyun Nak Lee
			Attendance 100%	Attendance 100%	Attendance 0%	Attendance 100%
			Voting Result			
Nov 2, 2011	Report on the main institutions of the Commercial Code to be amended related to governance	Original proposal accepted	For	For	For	For
Dec. 15, 2011	Partial amendment to Articles of Incorporation and Provision	Original proposal accepted	For	For	For	For
	Report on the result of sustainable management for 2011	Original proposal accepted	For	For	For	For

■ Evaluation & Compensation Committee

Meeting Date	Agenda	Results of discussion	Independent and Non-Executive Directors			
			Jeung Soo Huh	Choon Ho Lee	Jong Hwan Song	Chan-Jin Lee
			Attendance 100%	Attendance 100%	Attendance 100%	Attendance 100%
			Voting Result			
Jan.26, 2011	Result of CEO management assessment for 2010	Original proposal approved	For	For	For	For
Feb.9, 2011	Proposal on the Limit on remuneration of Directors for 2011	Original proposal approved	For	For	For	For
	Proposal on remuneration standards and payment methods for Standing Directors	Original proposal approved	For	For	For	For
	Proposal on the members, limit on remuneration of Executive officers	Original proposal approved	For	For	For	For
	Revision of the executive severance payment provisions	Original proposal approved	For	For	For	For
Feb. 24, 2011	CEO management goal for 2011	Original proposal approved	For	For	For	For
Apr. 28, 2011	Payment for long-term incentive and stock grant for the 2010 fiscal year	Original proposal approved	For	For	For	For
	Proposal on the long-term incentive and stock grant for the 2011 fiscal year	Original proposal approved	For	For	For	For

※ Outside director Jeung Soo Huh resigned on August 23, 2011

Meeting Date	Agenda	Results of discussion	Independent and Non-Executive Directors		
			Choon Ho Lee	Jong Hwan Song	Chan-Jin Lee
			Attendance 100%	Attendance 100%	Attendance 100%
			Voting Result		
Aug.25, 2011	Report on the CEO performance for the first half of 2011	Original proposal accepted	For	For	For

■ Related-party Transaction Committee

Meeting Date	Agenda	Results of discussion	Independent and Non-Executive Directors			
			Jong Hwan Song	Chan Jin Lee	Hyun Nak Lee	Byong Won Bahk
			Attendance 100%	Attendance 33%	Attendance 100%	Attendance 100%
			Voting Result			
Mar. 3, 2011	Proposal on the Paid-In Capital increase to KT estate for establishing AMC	Original proposal approved	For	For	For	For

■ CEO Candidate Recommendation Committee

Meeting Date	Agenda	Results of discussion	Independent and Non-Executive Directors						
			Hyun Nak Lee	E. Han Kim	Choon Ho Lee	Jong Hwan Song	Hae Bang Chung	Chan Jin Lee	Byong Won Bahk
			Voting Result						
Dec.15, 2011	Plan for recommending CEO candidate	Original proposal approved	For	For	For	For	For	For	For
Dec 21, 2011	Proposal on CEO Candidate Recommendation	Original proposal approved	For	For	For	For	For	For	For

■ Executive Committee

Meeting Date	Agenda	Results of discussion
Jan. 26, 2011	Proposal to award KT Company-Labor Union Youth Scholarship	Original proposal approved
	Proposal on donation to the Social Welfare Fund	Original proposal approved
Feb. 18, 2011	Establishment, relocation, renaming and closing of branches	Original proposal approved
	Proposal on award 'olleh IT-Master scholarship'	Original proposal approved
Mar.17, 2011	Sponsoring Korea Digital Media Industry Association	Original proposal approved
	Proposal on donation for Japan's earthquake damage	Original proposal approved
Mar.25, 2011	Sponsorship contract for Jeju World Seven Natural Landscapes	Original proposal approved
Apr.7, 2011	Plan for issuance of 180th corporate bonds	Original proposal approved
Apr.14, 2011	Proposal on investment term change to Paris Project	Original proposal approved
Jun. 3, 2011	Proposal on donation of smartpads to local children's centers	Original proposal approved
Jul, 8, 2011	Establishment of new branch and change of branch name	Original proposal approved
Jul.28, 2011	Plan for issuance of 181th corporate bonds	Original proposal approved
Sep. 7, 2011	Proposal on donation to Disaster Relief Association for flood recovery	Original proposal approved
Oct.13, 2011	Proposal on donation for supporting Vietnam ICT development	Original proposal approved
Oct.19, 2011	Plan for issuance of 182th corporate bonds	Original proposal approved
Nov.11, 2011	Proposal on acquisition of 'E' company and investment	Original proposal approved
Nov.15, 2011	Plan for issuance of foreign corporate bonds	Original proposal approved
Dec.15, 2011	Plan for issuance of 183th corporate bonds	Original proposal approved
Dec.29, 2011	Plan for issuance of foreign corporate bonds	Original proposal approved

(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
Jong Hwan Song	Global Business	Outside Director Candidate Recommendation Committee	Evaluation & Compensation Committee / Related-party Transaction Committee(Chairman)	No
Keuk-Je Sung	Global Business	Outside Director Candidate Recommendation Committee	Evaluation & Compensation Committee / Related-party Transaction Committee	No
Sang Kyun Cha	ICT Business	Outside Director Candidate Recommendation Committee	Corporate Governance Committee/ Related-party Transaction Committee	No

(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%
Choon Ho Lee	O	
Jeung Soo Huh	O	
Jong Hwan Song	O	
Hae Bang Chung	O	
Chan Jin Lee	O	
Hyun Myung Pyo	X	

■ Outside Director Candidate Recommendation Committee

Meeting Date	Agenda	Results of discussion	Independent and Non-Executive Directors					
			E. Han Kim	Choon Ho Lee	Jeung Soo Huh	Jong Hwan Song	Hae Bang Chung	Chan Jin Lee
			Attendance 100%	Attendance 100%	Attendance 100%	Attendance 100%	Attendance 100%	Attendance 100%
			Voting Results					
Jan. 13, 2011	Plan on supporting recommendation of outside director candidate	Original proposal approved	For	For	For	For	For	For
Jan. 27, 2010	Selecting outside director candidate	Original proposal approved	For	For	For	For	For	For

Feb.7, 2010	Finalization of outside director candidates	Original proposal approved	For	For	For	For	For	For

(5) Expertise of outside directors

(a) Supportive team for outside directors

- Corporate Governance Team at the Legal Department

(b) Education for outside directors in 2011

- Programs provided by Korea Directors Association: Three outside directors (Choon Ho Lee, Chan Jin Lee, Byong Won Bahk) took the program

2. Audit Committee

(1) 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 - 6th 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) Independence of Audit Committee

Audit committee is established within the BOD and member of audit committee is appointed at the Shareholders' Meeting. The audit committee is composed of four outside directors. Among members, three members (E. Han Kim, Hae Bang Chung, Byong Won Bahk) are financial expert.

Audit Committee and members are performing its duties against company independently and audit company's accounting work. If necessary, Audit Committee and members have right to require report on business and also investigate the company's financial status.

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

Order	Date	Subject	Result of Discussion
First	Jan.26, 2011	Approval of financial statements for 29th term	Original proposal approved
		Report of business report for 29th term	Original proposal approved
		Report of final audit for fiscal year 2010	Original proposal approved
Second	Feb. 9, 2011	Report on operating result of internal accounting management system for fiscal year 2010	Original proposal approved
		Report on operational condition of internal accounting management system for fiscal year 2010 (prepared by audit committee)	Original proposal approved
		Report on audit records for 2010 and audit plan for 2011	Original proposal approved
Third	Feb. 24, 2011	Report on agenda of the annual general meeting of shareholders for 29th term and result on document review	Original proposal approved
		Audit report for the annual general meeting of shareholders for 29th term	Original proposal approved
		Evaluation report on operational status of internal compliance device of the audit committee	Original proposal approved
Fourth	Mar. 29, 2011	Appointment of the chairman of Audit committee	Chairman appointed
		Approval of remuneration of independent auditor for fiscal year 2011	Original proposal approved
		Approval of remuneration for audit and non-audit services of independent auditor of consolidated companies for fiscal year 2011	Original proposal approved
		Report on the result of consolidated statement of account for fiscal year 2010	Original proposal approved
Fifth	May. 3, 2011	Report on statement of accounts for the first quarter of fiscal year 2011	Original proposal approved
		Report on consolidated statement of accounts for the first quarter of fiscal year 2011	Original proposal approved
		Report of audit performance for the first quarter of 2011 and audit plan	Original proposal approved
Sixth	Jun. 17, 2011	Approval of remuneration for audit and non-audit services of independent auditor of consolidated companies for fiscal year 2011	Original proposal approved
		Report on filing of Form 20-F for fiscal year 2010	Original proposal approved
		Pre-Approval of remuneration for non-audit services of independent auditor of consolidated companies	Original proposal approved
Seventh	Aug. 24, 2011	Report on statement of accounts for the first half of fiscal year 2011	Original proposal approved
		Report on consolidated statement of accounts for the first half of fiscal year 2011	Original proposal approved
		Report of final audit for first half of fiscal year 2011	Original proposal approved
		Report of audit performance for the first half of 2011 and audit plan for third quarter of 2010	Original proposal received
Eighth	Nov. 2, 2011	Pre-Approval of remuneration for non-audit services of independent auditor of consolidated companies	Original proposal received
		Pre-approval of remuneration for audit service of independent auditor for consolidated company for fiscal year 2011	Original proposal approved
		Pre-approval of remuneration for non-audit service of independent auditor for consolidated company for fiscal year 2011	Original proposal rejected
		Report on statement of accounts for the third quarter of fiscal year 2011	Original proposal received
		Report on consolidated statement of accounts for the third quarter of fiscal year 2011	Original proposal received
		Report of audit performance for the third quarter of 2011and audit plan for the fourth quarter of 2011	Original proposal received

3. Matters on Shareholder's Exercise of Voting Rights

(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)

4. Equity Investments

[As of December 31, 2011] (Units: In Share, KRW million, %)

Name of Company or Item	Beginning Balance			Increase (Decrease)			Ending Balance			Financial Facts (Latest fiscal year)	
	Number of Shares	Equity Ratio	Book Value	Acquisition (disposal) Shares	Acquisition (disposal) Amounts	Valuation	Number of Shares	Equity Ratio	Book Value	Total Assets	Net Profits
KT Powertel Co. Ltd.	7,771,418	44.8%	37,419	-	-	-	7,771,418	44.8%	37,419	167,075	14,569
KT Networks Corporation	2,000,000	100.0%	48,684	-	-	-	2,000,000	100.0%	48,684	212,867	389
KT Linkus co., Ltd.	2,941,668	93.8%	6,282	-	-	-	2,941,668	93.8%	6,282	67,419	-6,667
Telecop Service Co. Ltd.	5,765,911	88.8%	26,045	-	-	-	5,765,911	86.8%	26,045	156,479	7,075
KT Venture Investment Fund No.2	5,000	94.3%	4,780	-5,000	-4,780	-	0	-	0	0	0
KT Hitel	22,750,000	65.9%	120,078	-	-	-	22,750,000	65.9%	120,078	249,730	-2,833
KT Submarine Co., Ltd.	1,617,000	36.9%	24,370	-	-	-	1,617,000	36.9%	24,370	127,063	6,700
KT Commerce, Inc.	266,000	19.0%	1,782	-	-	-	266,000	19.0%	1,782	53,177	4,370
KT Technologies, Inc	5,146,962	93.8%	20,000	-	-20,000	-	5,146,962	93.8%	0	110,923	641
KT Rental Co., Ltd.	6,618,046	58.0%	172,807	-919,278	-15,850	-	5,698,768	58.0%	156,957	1,376,666	26,965
KT Capital Co., Ltd.	20,200,000	73.7%	126,092	11,739,846	100,000	-	31,939,846	81.6%	226,092	4,454,475	29,733
Sidus FNH Co.	2,297,000	51.0%	3,522	-	-	-	2,297,000	51.0%	3,522	9,838	-2,975
Nasmedia Co., Ltd	1,767,516	50.0%	23,051	103,687	-	-	1,871,203	51.4%	23,051	92,384	6,004
Softnix Co.Ltd.	120,000	53.3%	610	-	-	-	120,000	53.3%	610	970	-481
KT edui Co., Ltd.	600,000	70.3%	3,031	-	-3,031	-	600,000	52.6%	0	1,119	-2,366
KT New Business Investment Fund No.1	200	90.9%	20,112	-	-	-	200	90.9%	20,112	21,878	-1,169
KT Data System Co., Ltd.	2,400,000	95.3%	19,616	-	-	-	2,400,000	95.3%	19,616	146,236	10,298
KT mhows Co., Ltd.	510,000	51.0%	3,344	-	-	-	510,000	51.0%	3,344	15,148	1,092
KT M&S Co., Ltd.	30,000,000	100.0%	37,564	-	-	-	30,000,000	100.0%	37,564	249,280	-3,256
KT Music Co., Ltd.	14,494,258	48.7%	17,417	-	-	-	14,494,258	48.7%	17,417	27,840	-2,385
KT Innotz	600,000	60.0%	3,000	1,400,000	7,000	-	2,000,000	100.0%	10,000	5,520	-4,623

KT Capital Media Contents Investment Fund No. 2	3,043	43.5%	3,045	-	-	-	3,043	43.5%	3,045	6,988	-35
Gyeonggi-KT Green Growth Investment Association	125	40.3%	12,480	-	-	-	125	40.3%	12,480	29,567	-2,139
KT Estate	1,600,000	100.0%	8,000	4,248,819	21,244	-	5,848,819	100.0%	29,244	33,382	1,337
KT Strategic Investment Fund No. 1	100	90.9%	10,000	-	-	-	100	90.9%	10,000	11,201	-21
KT Skylife	12,708,000	32.1%	65,296	11,200,000	246,400	-	23,908,000	50.2%	311,696	550,844	25,505
NexR	-	-	0	306,667	4,600	-	306,667	65.7%	4,600	3,887	756
Korea HD Broadcasting	-	-	0	6,000,000	3,000	-	6,000,000	14.8%	3,000	34,799	-2,151
KT-SB Data Services	-	-	0	3,774,000	18,870	-	3,774,000	51.0%	18,870	58,755	-149
KT cloudware	-	-	0	200,000	1,000	-	200,000	100.0%	1,000	916	-165
Enswers	-	-	0	17,861	15,957	-	17,861	35.5%	15,957	16,543	-331
KT smartservice	-	-	0	266,667	13,984	-	266,667	82.8%	13,984	25,493	-377
H&C Network	-	-	0	10,720	1,011	-	10,720	1.0%	1,011	197,726	1,124
Korea Telecom America, Inc.(USA)	6,000	100.0%	4,064	-	-	-	6,000	100.0%	4,064	6,368	149
Korea Telecom Japan Co., Ltd.(Japan)	12,856	100.0%	3,995	-	-	-	12,856	100.0%	3,995	15,359	731
Korea Telecom China Co., Ltd.(China)	-	100.0%	2,160	-	-	-	-	100.0%	2,160	2,804	111
New Telephone Company, Inc. (Russia)	5,309,189	80.0%	168,654	-5,309,189	-168,654	-	0	-	0	0	0
KTSC Investment Management B.V.	82,614	60.0%	36,275	-	-	-	82,614	60.0%	36,275	65,587	-4,797
PT.KT Indonesia	198,000	99.0%	108	-	-	-	198,000	99.0%	108	52	-8

VI. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

1. Directors

Name	Position	Director Since	Date of Birth	Expiration of Term of Office
Non-Independent Directors (1)				
Suk-Chae Lee	Chief Executive Officer	January 2009	September 11, 1945	2015
Sang-Hoon Lee	President	March 2009	January 24, 1955	2013
Hyun-Myung Pyo	President	March 2009	October 21, 1958	2013
Outside Directors (1)				
E. Han Kim	Chairperson of the Board of Directors, Professor, University of Michigan	March 2009	May 27, 1946	2015
Choon-Ho Lee	Chairperson of the Board of Directors of Korea Educational Broadcasting System	March 2009	July 22, 1945	2015
Jong-Hwan Song	Professor, Myongji University	March 2010	September 5, 1944	2013
Hae-Bang Chung	Professor, School of Law, Konkuk University	March 2010	September 1, 1950	2013
Hyun Nak Lee	Professor, Sejong University	March 2011	November 4, 1941	2014
Byong Won Bahk	Chairperson, Korean Federation of Banks	March 2011	September 24, 1952	2014
Keuk Je Sung	Professor, Graduate School of Pan-Pacific International Studies, Kyunghee University	March 2012	June 4, 1953	2015
Sang Kyun Cha	Professor, Department of Electrical and Computer Engineering, Seoul National University	March 2012	February 19, 1958	2013

2. Senior Management

Name (1)	Title and Responsibilities	Current Position Held Since	Years with the Company	Date of Birth
Sung-Bok Jung	President, Legal & Corporate Ethics Office	January 2009	3	December 7, 1954
Yu-Yeol Seo	President, Home Business Group	January 2010	33	September 9, 1956
Il-Yung Kim	Senior Executive Vice President, Corporate Center	January 2010	2	September 8, 1956
Yeon-Hak Kim	Senior Executive Vice President, Mobile Business Chief Operating Office	January 2012	24	May 17, 1962
Hong-Jin Kim	Senior Executive Vice President, Global & Enterprise Business Operating Office	January 2012	1	April 25, 1953
Won-Ki Hong	Senior Executive Vice President, Advanced Institute of Technology	March 2012	0	September 28, 1959
Sung-Man Kim	Senior Executive Vice President, Network Group	January 2010	29	October 3, 1956
Jung-Hee Song	Senior Executive Vice President, Service Innovation Group	January 2011	1	February 18, 1958
Hong-Seok Seo	Senior Executive Vice President, Corporate Relations Office	January 2011	1	November 20, 1960
In-Sung Jun	Senior Executive Vice President, Group Shared Service Group	January 2010	31	October 9, 1958
Joo-Sung Kim	Senior Executive Vice President, Contents & Media Task Force	March 2012	0	May 14, 1960
Jeong-Tae Park	Executive Vice President, Strategy & Planning Office	January 2012	27	December 10, 1959
Se-Hyun Oh	Executive Vice President, New Business Strategy Department	January 2011	1	July 2, 1963
Kyu-Taek Nam	Executive Vice President, Synergy Management Office	October 2010	25	February 6, 1961
Sun-Cheol Gweon	Executive Vice President, Synergy Management Department	December 2010	20	March 1, 1962
Sang-Jik Lee	Executive Vice President, Legal Affairs Center	June 2009	2	September 6, 1965
Tae-Hyo Ahn	Executive Vice President, Smart Eco Business Unit	July 2011	27	January 24, 1962
Heon-Moon Lim	Executive Vice President, Home Business Chief Operating Office	January 2012	24	November 15, 1960
Jong-Jin Chae	Executive Vice President, Professional Service Business Unit	January 2012	25	June 25, 1961
Dong-Hoon Han	Executive Vice President, Service Delivery Business Unit	December 2010	30	September 12, 1959
Kyu-Shik Shin	Executive Vice President, Domestic Enterprise Chief Sales Office	January 2012	1	June 7, 1957
Dong-Myun Lee	Executive Vice President, Technology Strategy Office	December 2010	20	October 15, 1962
Kyeong-Soo Lee	Executive Vice President, Network Strategy Business Unit	December 2010	19	February 5, 1960
Seong-Mok Oh	Executive Vice President, Mobile Network Business Unit	December 2010	26	August 20, 1960
Tae-Il Park	Executive Vice President, Network Technology Support Business Unit	December 2010	33	February 24, 1956
Hyun-Mi Yang	Executive Vice President, Customer Strategy Business Unit	December 2010	2	December 4, 1963
Young-Hee Song	Executive Vice President, Content & Media Division	December 2010	2	February 10, 1961
Tae-Yol Yoo	Executive Vice President, Economics & Management Research Laboratory	January 2009	27	April 4, 1960
Bum-Joon Kim	Executive Vice President, Financial Management Office	February 2012	6	March 25, 1965
Seok-Keun Oh	Executive Vice President, Corporate Relations Support Office	January 2012	13	August 28, 1961
Gil-Joo Lee	Executive Vice President, Public Relations Office	November 2006	36	September 20, 1955

Name [1]	Title and Responsibilities	Current Position Held Since	Years with the Company	Date of Birth
Jae-Geun Choi	Executive Vice President, Public Relations Department	January 2010	2	November 30, 1961
Sang-Hyo Kim	Executive Vice President, Human Resources Office	May 2010	1	April 1, 1956
Young-Hui Lee	Executive Vice President, Human Resources Office	October 2011	30	August 7, 1957
Sa-Il Kwon	Executive Vice President, General Affairs Office	January 2010	34	January 30, 1957
Eun-Hye Kim	Executive Vice President, Group Media & Communications Office	December 2010	1	January 6, 1971
Yun-Su Kim	Senior Vice President, Corporate Planning Department	December 2010	19	November 2, 1963
Hwa Jung	Senior Vice President, Group Strategy Department	December 2010	23	August 10, 1964
Sangwook Seo	Senior Vice President, Strategic Investment Department	November 2011	0	January 26, 1972
Byung-Ho Nam	Senior Vice President, Synergy Development Department 1	January 2012	0	February 23, 1967
Eung-Ho Lee	Senior Vice President, Corporate Ethics Department 1	January 2010	21	December 7, 1962
Eun-Soo Park	Senior Vice President, Corporate Ethics Department 2	January 2010	22	January 10, 1962
Kuk-Hyun Kang	Senior Vice President, Mobile Product & Marketing Business Unit	July 2011	22	September 8, 1963
Hyung-Wook Kim	Senior Vice President, Mobile Device Planning Department	January 2010	15	April 24, 1963
Hyeon-Mo Ku	Senior Vice President, Mobile Sales & CS Business Unit	January 2012	24	January 13, 1964
Hyon-Seog Lee	Senior Vice President, Mobile Sales Planning Department	January 2011	19	March 10, 1962
Chang-Young Yoon	Senior Vice President, Southern Metropolitan Mobile Sales Headquarter	July 2011	25	February 24, 1957
Myung-Bum Pyun	Senior Vice President, Northern Metropolitan Mobile Sales Headquarter	July 2011	14	June 19, 1960
Jae-Hyeon Kim	Senior Vice President, Chungcheong Mobile Sales Headquarter	January 2010	14	September 26, 1962
Bong-Goon Kwak	Senior Vice President, Mobile Business Fast Incubation Center	July 2011	27	March 2, 1960
Young-Lyoul Lee	Senior Vice President, olleh tv Business Unit	December 2010	5	September 17, 1962
Hae-Jung Park	Senior Vice President, Home Marketing Business Unit	July 2011	5	May 23, 1963
Seung-Dong Gye	Senior Vice President, Home Sales Business Unit	January 2012	34	June 6, 1958
Yong-Hwa Park	Senior Vice President, Home CS Business Unit	July 2011	28	March 2, 1958
Youn-Mo Jeon	Senior Vice President, Southern Seoul Sales Headquarter	December 2010	14	September 6, 1960
Jong-Hack Kang	Senior Vice President, Northern Seoul Sales Headquarter	January 2012	26	April 5, 1959
Jun-Su Jeong	Senior Vice President, Southern Gyeonggi Sales Headquarter	December 2010	19	November 2, 1962
Wook-Yeong Ryu	Senior Vice President, Busan Sales Headquarter	January 2012	36	December 20, 1956
Doo-Soo Chung	Senior Vice President, Incheon Sales Headquarter	January 2010	33	August 22, 1959
Jin-Hoon Kim	Senior Vice President, Daegu Sales Headquarter	January 2012	25	May 5, 1960
Young-Beum Joo	Senior Vice President, Northern Gyeonggi Sales Headquarter	January 2012	22	October 1, 1963
Jin-Chul Kim	Senior Vice President, Jeonnam Sales Headquarter	January 2012	23	May 25, 1962
Pan-Sik Shin	Senior Vice President, Global Project TF	January 2012	25	February 25, 1959
Moon-Hwan Lee	Senior Vice President, Global & Enterprise Business Strategy Business Unit	January 2012	23	October 1, 1963
Won-Sik Han	Senior Vice President, Enterprise Product Business Unit	January 2012	26	October 26, 1960
Jun-Sick Bahk	Senior Vice President, Global Business Development Unit	January 2012	1	February 16, 1967
Jung-Sub Kwak	Senior Vice President, Global Sales Business Unit	October 2011	0	April 2, 1961
Hyung-Joon Kim	Senior Vice President, Global Network Business Department	January 2012	17	November 2, 1963
Sang-Wook Kim	Senior Vice President, Asia Department	January 2012	1	February 14, 1965
Dae-Su Park	Senior Vice President, Public Customer Business Unit	January 2012	22	October 28, 1963
Jae-Gyo Kim	Senior Vice President, Public Customer Department 1	January 2011	33	September 23, 1958
Yoon-Sik Jeong	Senior Vice President, Enterprise Customer Business Unit 1	December 2010	3	September 30, 1964
Kyung-Seok Park	Senior Vice President, Enterprise Customer Business Unit 2	December 2010	25	February 10, 1958
Young-Sik Park	Senior Vice President, SMB Customer Business Unit	December 2010	33	April 9, 1957
Young-Taik Kim	Senior Vice President, Satellite Business Unit	November 2011	25	May 10, 1958
Gang-Geun Lee	Senior Vice President, Northern Seoul Corporate Sales Headquarter	January 2012	23	June 22, 1961
Hong-Jae Lee	Senior Vice President, Southern Seoul Corporate Sales Headquarter	January 2012	26	August 29, 1962
Hyung-Chul Park	Senior Vice President, Southern Gyeonggi Corporate Sales Headquarter	December 2010	26	February 2, 1962
Tae-Il Kwon	Senior Vice President, Northern Gyeonggi Corporate Sales Headquarter	January 2012	26	January 11, 1958
Sung-Hwan Gong	Senior Vice President, Jeonnam Corporate Sales Headquarter	December 2010	26	December 21, 1960
Yoon-Young Park	Senior Vice President, Technology Development Office	January 2010	19	April 18, 1962
Han-Wook Jung	Senior Vice President, Central R&D Laboratory	January 2010	26	January 22, 1961
Sung-Chun Lee	Senior Vice President, Network R&D Laboratory	December 2010	26	May 28, 1960
Jin-Soo Sohn	Senior Vice President, Smart Grid & Energy Business Development Unit	January 2012	26	December 15, 1960
Jae-Yoon Park	Senior Vice President, Metropolitan Mobile Network O&M Headquarter	January 2012	25	December 18, 1960
Cha-Hyun Yoon	Senior Vice President, Network Design Business Unit	December 2010	26	December 2, 1961
Yung-Sig Yoon	Senior Vice President, Network O&M Business Unit	December 2010	27	November 20, 1956
Young-Hyun Kim	Senior Vice President, Gangbuk Network O&M Headquarter	January 2012	34	December 19, 1958
Chan-Kyung Park	Senior Vice President, Gangnam Network O&M Headquarter	January 2012	26	January 1, 1959
Tae-Geun Kim	Senior Vice President, Chungcheong Network O&M Headquarter	December 2010	28	March 16, 1059
Cheol-Gyu Lee	Senior Vice President, Honam Network O&M Headquarter	January 2012	25	August 24, 1960
Kun-Muk Cho	Senior Vice President, Busan Network O&M Headquarter	January 2012	29	November 7, 1958
Hyeon-Kyu Lee	Senior Vice President, Advanced Platform Development Business Unit	July 2011	1	May 13, 1962
Jae Lee	Senior Vice President, Biz & IS Transformation Unit	December 2010	1	March 2, 1970
Moon-Chul Jung	Senior Vice President, Customer Satisfaction Planning Business Unit	January 2012	26	August 5, 1957

Name (1)	Title and Responsibilities	Current Position Held Since	Years with the Company	Date of Birth
Ji-Yun Kim	Senior Vice President, Cloud Business Unit	January 2012	0	January 27, 1968
Dong-Sik Yun......................	Senior Vice President, Cloud Infrastructure Department	April 2010	23	June 9, 1963
Kyung-Kon Koh	Senior Vice President, internet Business Unit	December 2010	2	April 28, 1963
Jae-Ho Jang........................	Senior Vice President, IT Strategy Business Unit	February 2012	0	July 12, 1962
Sang-Yong Lee	Senior Vice President, Data & Information Security Department	November 2010	1	December 23, 1967
Young-Soo Woo..................	Senior Vice President, Value Creation Unit	March, 2012	0	August 13, 1964
Hyo-Sill Kim	Senior Vice President, Smart Network Policy TF	February 2012	19	April 17, 1963
Gwang-Suk Shin	Senior Vice President, Financial Resources Department 1	December 2010	23	January 5, 1960
Seong-Jin Lee.....................	Senior Vice President, Accounting Department	January 2009	15	December 2, 1958
Hee-Su Kim..........................	Senior Vice President, Corporate Relations Strategy Department	February 2012	0	October 15, 1962
Choong-Seop Lee	Senior Vice President, Corporate Relations Cooperation Department	January 2012	12	June 3, 1958
Young-Pil Park	Senior Vice President, Corporate Relations Support Department	March 2009	7	February 9, 1968
Yong-Seok Yoon	Senior Vice President, Real Assets Management Office	January 2012	19	April 10, 1957
Sang-Pyo Kwon	Senior Vice President, Procurement Strategy Office	January 2012	26	January 7, 1960
Kwang-Jin Oh	Senior Vice President, Group Consulting Support Office	January 2012	14	January 15, 1959
Pill-Jai Lee	Senior Vice President, BTO Planning Department	September 2010	24	October 3, 1961
Sung-Hoon Shim	Senior Vice President, CEO Office	January 2009	23	February 25, 1964
Ki-Soong Jang.....................	Senior Vice President, Educational Dispatch	January 2012	26	October 17, 1958
Jung-Won Park	Senior Vice President, Educational Dispatch	January 2012	25	July 26, 1959
Hong-Beom Jeon	Senior Vice President, Educational Dispatch	January 2012	20	October 3, 1962
Dae-San Lee.......................	Senior Vice President, Research and Development	January 2012	25	January 10, 1961
Seok-Gyoon Na...................	Senior Vice President, Research and Development	January 2012	27	October 26, 1958

3. Current Status of Employees

(Unit: Persons, Years, KRW million)

Type	Number of Employees			Average Years in Continuous Service	Total Payroll	Average Payroll per Person	Note
	General	Other	Total				
Total	31,805	176	31,981	18.9	1,863,551	60	-

- Number of employees: As of December 31, 2011 (excluding executive directors)
- Average years in continuous services: Calculated using aggregate years of service of employees as of December 31, 2011 divided by number of employees as of December 31, 2011
- Average payroll per person: Calculated using yearly average number of employees (31,203 employees)

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

4. Remuneration to Executive Officers

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

(Unit: KRW million)

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	41.1	65	13.7	-	—	-
8 Outside Directors	5.9		0.7	-	—	-

The number of outside directors is including Jeung Soo Huh who is retired midway on August 23, 2011
Non-Independent Directors' payroll reflects an estimate of the long-term incentive

(2) Grant and Exercise of Stock Option

* All unexercised stock options expired as of March 4, 2012

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.

In addition to our competition with integrated telecommunications service providers, we face increasing competition from specific service providers, such as Internet phone service providers, Internet text message service providers, voice resellers and call-back service providers. In recent years, the increasing popularity of Internet phone and free text message services, such as Skype and Kakao Talk, have had a negative impact on demand for our telecommunications and text message services while creating additional data transmission usage by our Internet and mobile subscribers. 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 Wideband Code Division Multiple Access (or W-CDMA) technology and Long-Term Evolution (or LTE) technology. Competitors in the mobile telecommunications service industry are SK Telecom and LG U+. We had a market share of 31.5% as of December 31, 2011, making us the second largest mobile telecommunications service provider in Korea. SK Telecom had a market share of 50.6% as of December 31, 2011.

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.

Since 2011, SK Telecom, LG U+ and we have launched fourth-generation mobile telecommunications services based on LTE technology, which we believe has further intensified competition among the three companies and resulted in an increase in marketing expenses and capital expenditures related to implementing and providing 4G LTE services. SK Telecom and LG U+ began providing 4G LTE services in July 2011, and we commenced providing commercial 4G LTE services on January 3, 2012 utilizing our bandwidths in the 1.8 GHz spectrum that became available upon termination of our 2G services based on Code Division Multiple Access (or CDMA) technology. Although we expect that SK Telecom and LG U+ will face similar challenges to those that we expect to face in implementing this fourth-generation technology, we cannot assure you that we will continue to be able to successfully compete in fourth-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. We also compete with specific service providers, such as Internet phone service providers, voice resellers and call-back service providers, that offer 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, 2011, we had a market share in local telephone service of 84.3% and a market share in domestic long distance service of 80.5%. 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 43.8% as of December 31, 2011. 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.

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. We have a license to use 40 MHz of bandwidth in the 2.1 GHz spectrum that we use to provide IMT-2000 services based on W-CDMA wireless network standards. Such license expires in December 2016, and we are required to pay approximately ₩1.3 trillion during the license period of 15 years. In April 2010, the Korea Communications Commission announced its decision to allocate 20 MHz of bandwidth in the 900 MHz spectrum to us, which became effective in July 2011, for which we will pay a portion of the actual sales generated from using the bandwidth in the 900 MHz spectrum during the license period of 10 years as a usage fee for the bandwidth, as well as a portion of expected sales that was determined by the Korea Communications Commission at the time of allocation. In June 2011, our right to use 40 MHz of bandwidth in the 1.8 GHz spectrum expired, and the Korea Communications Commission allocated back to us the right to use 20 MHz of such bandwidth in the 1.8 GHz spectrum upon expiration pursuant to our application, for which we will pay a portion of the actual sales generated from using the bandwidth in the 1.8 GHz spectrum during the license period of 10 years as a usage fee for the bandwidth, as well as a portion of expected sales that was determined by the Korea Communications Commission at the time of allocation.

In August 2011, the Korea Communications Commission auctioned the right to use the remaining 20 MHz of bandwidth in the 1.8 GHz spectrum that we relinquished, 10 MHz of additional bandwidth in the 800 MHz spectrum and 20 MHz of additional bandwidth in the 2.1 GHz spectrum. We acquired the right to use the 10 MHz of bandwidth in the 800 MHz spectrum, for which we will pay a total usage fee of ₩261 billion during the license period of 10 years, SK Telecom acquired the right to use the 20 MHz of bandwidth in the 1.8 GHz spectrum and LG U+ acquired the right to use the 20 MHz bandwidth in the 2.1 GHz spectrum. We began using the 20 MHz of bandwidth in the 1.8 GHz spectrum, which became available upon termination of our 2G PCS services, to provide our 4G LTE services starting in January 2012, and expect to utilize the newly allocated bandwidths in the 800 MHz and 900 MHz spectrums to further expand our 4G LTE services in the future, if necessary.

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.

Introduction of new services, including our 4G LTE 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 completed the upgrade of our 4G WiBro network and expanded our WiBro service coverage to 82 cities nationwide and major highways as of March 2011, which we believe allows us to provide WiBro services at speeds that are approximately three times faster than our previous 3G network at a lower cost, and had approximately 740,000 subscribers as of December 31, 2011. We are also 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.

In addition, we have been building more advanced mobile telecommunications networks based on LTE technology, which is generally referred to as a 4G technology, and commenced providing commercial 4G LTE services in the Seoul metropolitan area on January 3, 2012. We completed the expansion of our 4G LTE service coverage to 84 cities throughout Korea in April 2012. Several wireless carriers in the United States, Europe and Asia commenced LTE services in recent years and LTE technology is expected to be widely accepted as the standard 4G technology. LTE technology enables data to be transmitted faster than W-CDMA, up to 75 Mbps for downloading and up to 37.5 Mbps for uploading. We expect that the faster data transmission speed of the LTE network, combined with our existing 4G nationwide WiBro network, will allow us to offer significantly improved wireless data transmission services, providing our subscribers with faster wireless access to multimedia 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.

Termination of our second generation Personal Communications Service (or 2G PCS) services may pose risks to us.

As part of our decision to apply for reallocation of the 20 MHz bandwidth in the 1.8 GHz spectrum, we applied to the Korea Communications Commission to terminate our 2G PCS services, and on November 23, 2011, the Korea Communications Commission approved our plan. However, on November 30, 2011, approximately 900 of our 2G PCS service subscribers filed a class-action suit against the Korea Communications Commission for its approval of our plan, claiming that we used improper means to reduce our 2G PCS subscribers to comply with regulatory requirements before terminating the 2G PSC services and that the Korea Communications Commission did not consider such factor in approving our plan. On December 6, 2011, the Seoul Administrative Court issued a preliminary injunction, which temporarily suspended our termination of the 2G PCS services until the case went to trial. We immediately appealed the decision and the Seoul High Court overruled the preliminary injunction on December 26, 2011 and reinstated the Korea Communications Commission's approval. Accordingly, we terminated our 2G PCS services in the Seoul metropolitan area and began the termination process for the rest of Korea on January 3, 2012. On January 12, 2012, the 2G subscribers filed an appeal of the Seoul High Court's decision with the Supreme Court of Korea, and on February 1, 2012, the Supreme Court of Korea denied such appeal. On January 17, 2012, trial for the original class-action suit filed by the 2G subscribers began in the Seoul Administrative Court. The outcome of the trial, and any effect it may have on us, cannot be determined at this time. There can be no assurance that we will not incur reputational damage from terminating our 2G PCS services, or that further complaints and other potential actions of our 2G PCS subscribers will not adversely affect our business, financial condition and results of operations.

We may not be able to successfully pursue our strategy to acquire businesses and enter into joint ventures that complement or diversify our current business, and we may need to incur additional debt to finance such expansion activities.

One key aspect of our overall business strategy calls for acquisitions of businesses and entering into joint ventures that complement or diversify our current business. In October 2011, we, through our subsidiary KT Capital Co., Ltd., acquired 1,622,520 common shares of BC Card Co., Ltd. to further diversify our business and to create synergies through utilization of our mobile telecommunications network in financial services. In December 2011, we entered into a memorandum of understanding for a strategic partnership with, and acquisition of shares of, Telkom SA Limited, a South African comprehensive telecommunications service provider. In January 2011, we acquired 5,600,000 shares of redeemable convertible preferred stock with voting rights and convertible bonds that are convertible into 5,600,000 shares of common stock of KT Skylife Co., Ltd., a provider of satellite TV service which may also be packaged with our IP-TV services, from Dutch Savings Holdings B.V. for approximately ₩246 billion. We exercised the conversion rights on the redeemable convertible preferred stock and the convertible bonds in March 2011, and owned a 50.3% interest in KT Skylife Co., Ltd. as of December 31, 2011.

While we plan to continue our search for other suitable acquisition and joint venture opportunities, we cannot provide assurance that we will be able to identify additional attractive opportunities or that we will successfully complete the transactions, including the proposed transaction with Telkom SA Limited, without encountering administrative, technical, political, financial or other difficulties, or at all. Even if we were to successfully complete the transactions, success of an acquisition or a joint venture depends largely on our ability to achieve the anticipated synergies, cost savings and growth opportunities from integrating the business of the acquired company or the joint venture with our business. There can be no assurance that we will achieve the anticipated benefits of the transaction, which may adversely affect our business, financial condition and results of operations.

Pursuing acquisitions or joint venture transactions also requires significant capital, and as we pursue further growth opportunities for the future, we may need to raise additional capital through incurring loans or through issuances of bonds or other securities in the international capital markets. The proposed transaction with Telkom SA Limited may also require significant capital resources if the acquisition is eventually successful. However, we cannot guarantee that such capital will be available when needed due to conditions in the capital markets, or that even if such capital is available, it will be available on commercially acceptable terms or in sufficient amounts to make the expenditures required.

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. Our current collective bargaining agreement expires on May 23, 2013. 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. See "Item 4. Information on the Company — Item 4.B. Business Overview — Regulation — Rates." 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. In addition, the Korea Communications Commission may periodically announce public policy guidelines or suggestions that we take into consideration in setting our tariff for non-regulated services. In June 2011, upon recommendation of the Korea Communications Commission, SK Telecom announced tariff reduction measures, including a reduction of the monthly fee by ₩1,000 for every subscriber, an exemption of usage charges for short text message service, or SMS, up to 50 messages per month and the introduction of flexible service plans for smart phone users. In August 2011, after discussions with the Korea Communications Commission, we announced the adoption of various tariff reduction measures, including a reduction of the monthly fee by ₩1,000 for every mobile subscriber (effective October 21, 2011), an exemption of usage charges for SMS, of up to 50 messages per month (effective November 1, 2011) and the introduction of customized fixed rate plans for smart phone users (effective October 24, 2011). There can be no assurance that we will not adopt other tariff-reducing measures in the future to comply with the Korea Communications Commission's public policy guidelines or suggestions.

The Government also sets the policies regarding the use of radio frequencies and allocates the spectrum of radio frequencies used for wireless telecommunications. For a discussion of the Government's recent policies and practices on bandwidth spectrum allocation, see "Item 3. Key information — Item 3.D. Risk Factors — "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." The new allocations of bandwidth 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. 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. In addition, KT Skylife Co. (formerly Korea Digital Satellite Broadcasting Co., Ltd.), which became our consolidated subsidiary starting in January 2011, 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.

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. See "Item 4. Information on the Company — Item 4.B. Business Overview — Regulation."

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. In May 2011, the International Agency for Research on Cancer ("IARC") announced that it has classified radiofrequency electromagnetic fields associated with wireless phone use as possibly carcinogenic to humans, based on an increased risk for glioma, a malignant type of brain cancer. The IARC is part of the World Health Organization that conducts research on the causes of human cancer and the mechanisms of carcinogenesis, and aims to develop scientific strategies for cancer control. We cannot assure you that such 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 certain payments related to our derivative instruments entered into for foreign exchange risk hedging purposes. Of the ₩8,918 billion total principal amount of long-term borrowings (less current portion) outstanding as of December 31, 2011, ₩2,596 billion was denominated in foreign currencies with an average weighted interest rate of 3.93%. The interest rates of such long-term debt denominated in foreign currencies ranged from 1.05% (for US$100 million floating rate notes due 2013 with an interest rate of three month London Interbank Offered Rate plus 0.47%) to 6.50% (for US$100 million fixed rate notes due 2034 issued under our medium-term note program). See "Item 3. Key Information — Item 3.A. Select Financial Data — Exchange Rate Information", "Item 5. Operating and Financial Review and Prospects—Item 5.B. Liquidity and Capital Resources" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk."

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.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. From the second half of 2008 to the first half of 2010, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular fluctuated widely. While such fluctuations generally stabilized in the second half of 2010 and into 2011, there has been increased volatility in the value of the Won in recent months reflecting the general volatility in the global financial markets. There is no guarantee that they will not occur again in the future. "Item 3. Key Information — Item 3.A. Select Financial Data — Exchange Rate Information" A depreciation of the Won increases the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency-denominated debt. An appreciation of the Won, on the other hand, causes export products of Korean companies to be less competitive by raising their prices in terms of the relevant foreign currency and reduces the Won value of such export sales. Furthermore, as a result of adverse global and Korean economic conditions, there has been an overall decline and continuing volatility in the stock prices of Korean companies. The Korea Composite Stock Price Index (known as the "KOSPI") declined from 1,897.1 on December 31, 2007 to 938.8 on October 24, 2008. While the KOSPI have recovered since 2008, there has been increased volatility in the KOSPI in recent months, particularly following the downgrading by Standard & Poor's Rating Services of the long-term sovereign credit rating of the United States to "AA+" from "AAA" in August 2011 and in light of the financial difficulties affecting many other governments worldwide, in particular Greece, Portugal, Spain, Italy and other countries in Europe. There is no guarantee that the stock prices of Korean companies will not decline again in the future. Future declines in the KOSPI and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may continue to adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. 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 financial sectors in Europe 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 particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il designated his third son, Kim Jong-eun, as his successor prior to his death, the eventual outcome of such leadership transition remains uncertain. Only limited information is available about Kim Jong-eun, who is reported to be in his late twenties, and it remains unclear which individuals or factions, if any, will share political power with Kim Jong-eun or assume the leadership if the transition is not successful.

In addition, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and long-range missile programs as well as its hostile military actions against Korea. North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 followed by a nuclear test in October 2006, 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 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, while North Korea has denied responsibility. In November 2010, North Korea reportedly fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the maritime border between Korea and North Korea on the west coast of Korea, killing two Korean soldiers and two civilians, wounding many others and causing significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

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. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea. There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tensions could have a material adverse effect on the Korean economy and on our business, results of operations and financial condition.

EXHIBIT 99-1 : CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011 AND 2010 AND INDEPENDENT AUDITORS' REPORT

KT Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2011 and 2010

pwc

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Report of Independent Auditors

To the Board of Directors and Shareholders of
KT Corporation

We have audited the accompanying consolidated statements of financial position of KT Corporation (the "Company") as of December 31, 2011 and 2010, and January 1, 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audits provide 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 KT Corporation as of December 31, 2011 and 2010, and January 1, 2010, and their financial performance and cash flows for the years ended December 31, 2011 and 2010, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

The Company also prepared the comparative consolidated financial statements in accordance with the previous accounting principles generally accepted in the Republic of Korea ("the previous K-GAAP") which are not included in this audit report. We had also conducted our audits on those financial statements prepared in accordance with former accounting principles generally accepted in the Republic of Korea and expressed an unqualified opinion on those statements in our audit report dated March 30, 2011.

Auditing standards and their application in practice vary among countries. 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 is for use by those who are informed about Korean auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 8, 2012

This report is effective as of March 8, 2012, 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, 2011, 2010, and January 1, 2010

(in millions of Korean won)	**Notes**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Assets				
Current assets				
Cash and cash equivalents	5, 6, 36	₩ 1,445,169	₩ 1,161,641	₩ 1,542,872
Trade and other receivables, net	5, 7, 35, 36	6,158,914	4,193,377	3,735,368
Short-term loans, net	5, 8, 36	698,030	725,342	443,722
Current finance lease receivables, net	5, 21, 36	248,703	194,771	198,987
Other financial assets	5, 9, 36	253,625	269,692	386,717
Current income tax assets		838	287	26,664
Inventories, net	10	674,727	710,617	765,378
Other current assets	11, 35	310,653	263,720	211,682
Total current assets		9,790,659	7,519,447	7,311,390
Non-current assets				
Trade and other receivables, net	5, 7, 35, 36	1,723,415	1,125,336	779,639
Long-term loans, net	5, 8, 36	491,301	407,879	467,507
Non-current finance lease receivables, net	5, 21, 36	487,957	402,568	323,778
Other financial assets	5, 9, 36	621,699	269,358	403,667
Property and equipment, net	12, 21, 34	14,022,695	13,398,272	14,032,578
Investment property, net	13, 34	1,159,105	1,146,250	1,030,018
Intangible assets, net	14, 34	2,643,485	1,418,920	1,385,694
Investments in jointly controlled entities and associates	15	529,184	638,061	306,064
Deferred income tax assets	30	529,856	565,329	570,778
Other non-current assets	11	86,053	50,183	52,581
Total non-current assets		22,294,750	19,422,156	19,352,304
Total assets		₩ 32,085,409	₩ 26,941,603	₩ 26,663,694

KT Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2011, 2010, and January 1, 2010

(in millions of Korean won)	Notes	December 31, 2011	December 31, 2010	January 1, 2010
Liabilities and Equity				
Current liabilities				
Trade and other payables	5, 16, 35, 36	₩ 5,890,425	₩ 4,424,198	₩ 5,288,058
Current finance lease liabilities, net	5, 21, 35, 36	46,155	33,089	6,224
Borrowings	5, 17, 36	2,112,438	2,722,458	2,049,155
Other financial liabilities	5, 9, 20, 36	8,287	1,143	7,378
Current income tax liabilities		187,070	283,828	9,702
Provisions	18, 20	122,585	58,477	28,906
Deferred income		167,907	176,652	128,308
Other current liabilities	11, 35	210,258	184,828	222,838
Total current liabilities		8,745,125	7,884,673	7,740,569
Non-current liabilities				
Trade and other payables	5, 16, 35, 36	651,713	381,507	295,621
Non-current finance lease liabilities, net	5, 21, 35, 36	90,042	60,767	1,329
Borrowings	5, 17, 36	8,886,114	6,659,906	7,517,545
Other financial liabilities	5, 9, 20, 36	288,473	37,783	19,487
Retirement benefit liabilities	19	425,712	263,978	86,026
Provisions	18, 20	142,965	110,400	102,999
Deferred income		160,981	156,873	154,448
Deferred income tax liabilities	30	124,437	4,449	2,242
Other non-current liabilities	11, 35	32,038	27,212	28,612
Total non-current liabilities		10,802,475	7,702,875	8,208,309
Total liabilities		₩ 19,547,600	₩ 15,587,548	₩ 15,948,878
Equity attributable to owners of the Parent Company				
Capital stock	22	₩ 1,564,499	₩ 1,564,499	₩ 1,564,499
Share premium		1,440,258	1,440,258	1,440,258
Retained earnings	23	10,219,633	9,466,168	9,693,037
Accumulated other comprehensive income		(22,865)	(79,370)	(40,557)
Other components of equity	24, 25	(1,497,289)	(1,258,293)	(2,154,147)
		11,704,236	11,133,262	10,503,090
Non-controlling interest		833,573	220,793	211,726
Total equity		12,537,809	11,354,055	10,714,816
Total liabilities and shareholders' equity		₩ 32,085,409	₩ 26,941,603	₩ 26,663,694

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

KT Corporation and Subsidiaries
Consolidated Statements of Income
Years ended December 31, 2011 and 2010

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

	Notes		2011		2010
Continuing Operations:					
Operating revenue	5, 9, 15, 26, 34, 35	₩	21,990,051	₩	20,326,275
Operating expenses	5, 9, 15, 27, 35		20,016,330		18,318,404
Operating profit	28, 34		1,973,721		2,007,871
Finance income	29, 35		267,419		239,379
Finance costs			(640,216)		(598,663)
Income (loss) from jointly controlled entities and associates	15		(3,038)		32,686
Profit from continuing operations before income tax			1,597,886		1,681,273
Income tax expense	30		(316,735)		(396,369)
the continuing operations			1,281,151		1,284,904
Discontinued Operations:					
Profit from discontinued operations	38		170,868		29,980
Profit for the period		₩	1,452,019	₩	1,314,884
Profit for the period attributable to:					
Equity holders of the Parent Company		₩	1,446,551	₩	1,295,841
Profit from continuing operations			1,276,512		1,273,191
Profit from discontinued operations			170,039		22,650
Non-controlling interest		₩	5,468	₩	19,043
Profit from continuing operations			4,639		11,713
Profit from discontinued operations			829		7,330
Earnings per share attributable to the equity holders of the Parent Company during the period (in won):					
Basic earnings per share	31	₩	5,946	₩	5,328
From continuing operations			5,247		5,235
From discontinued operations			699		93
Diluted earnings per share		₩	5,946	₩	5,328
From continuing operations			5,247		5,235
From discontinued operations			699		93

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

KT Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years ended December 31, 2011 and 2010

(in millions of Korean won)

	Notes		2011		2010
Profit for the period		₩	1,452,019	₩	1,314,884
Other comprehensive income					
Changes in value of available-for-sale financial assets	9		60,834		(1,033)
Net reclassification adjustment for realized losses of available-for-sale financial assets	9		(1,376)		2,771
Actuarial loss on retirement benefit liabilities	19		(108,065)		(146,728)
Net gains(losses) on cashflow hedges	9		16,459		(37,899)
Net reclassification adjustment for cashflow hedges	9		11,712		2,746
Shares of other comprehensive income (expense) from jointly controlled entities and associates	15		(2,633)		2,379
Net reclassification to income for jointly controlled entities and associates	15		(2,055)		-
Shares of actuarial gain (loss) of jointly controlled entities and associates	15		(1,918)		(238)
Currency translation differences			12,029		(10,819)
Net reclassification adjustment for currency translation differences			22,661		-
Total comprehensive income for the period		₩	1,459,667	₩	1,126,063
Comprehensive income for the period attributable to:					
Equity holders of the Parent Company			1,396,415		1,111,361
Non-controlling interest			63,252		14,702

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

KT Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2011 and 2010

(in millions of Korean won)	Notes	Attributable to equity holders of the Parent Company: Capital stock	Share premium	Retained earnings	Accumulated Other Comprehensive income (loss)	Other Components of equity	Total	Non-controlling interest	Total equity
Balance at January 1, 2010		₩ 1,564,499	₩ 1,440,258	₩ 9,693,037	₩ (40,557)	₩ (2,154,147)	₩ 10,503,090	₩ 211,726	₩ 10,714,816
Comprehensive income									
Profit for the period		-	-	1,295,841	-	-	1,295,841	19,043	1,314,884
Changes in value of available-for-sale financial assets	9	-	-	-	1,603	-	1,603	135	1,738
Actuarial loss on retirement benefit liabilities	9	-	-	(145,429)	-	-	(145,429)	(1,299)	(146,728)
Net losses on cashflow hedge	9	-	-	-	(35,153)	-	(35,153)	-	(35,153)
Shares of other comprehensive income of jointly controlled entities and associates	15	-	-	-	2,384	-	2,384	(5)	2,379
Shares of actuarial gain of jointly controlled entities and associates	15	-	-	(238)	-	-	(238)	-	(238)
Currency translation differences		-	-	-	(7,647)	-	(7,647)	(3,172)	(10,819)
Transactions with equity holders									
Dividends	32	-	-	(486,393)	-	-	(486,393)	(6,792)	(493,185)
Appropriations of loss on disposal of treasury stock		-	-	(890,650)	-	890,650	-	-	-
Change in ownership interest in subsidiaries		-	-	-	-	(520)	(520)	2,175	1,655
Others		-	-	-	-	5,724	5,724	(1,018)	4,706
Balance at December 31, 2010		₩ 1,564,499	₩ 1,440,258	₩ 9,466,168	₩ (79,370)	₩ (1,258,293)	₩ 11,133,262	₩ 220,793	₩ 11,354,055
Balance at January 1, 2011		₩ 1,564,499	₩ 1,440,258	₩ 9,466,168	₩ (79,370)	₩ (1,258,293)	₩ 11,133,262	₩ 220,793	₩ 11,354,055
Comprehensive income									
Profit for the period		-	-	1,446,551	-	-	1,446,551	5,468	1,452,019
Changes in value of available-for-sale financial assets	9	-	-	-	5,090	-	5,090	54,368	59,458
Actuarial loss on retirement benefit liabilities	9	-	-	(104,723)	-	-	(104,723)	(3,342)	(108,065)
Net gains on cashflow hedge	9	-	-	-	28,178	-	28,178	(7)	28,171
Shares of other comprehensive income of jointly controlled entities and associates	15	-	-	-	(5,283)	-	(5,283)	595	(4,688)
Shares of actuarial gain of jointly controlled entities and associates	15	-	-	(1,918)	-	-	(1,918)	-	(1,918)
Currency translation differences		-	-	-	28,520	-	28,520	6,170	34,690
Transactions with equity holders									
Dividends	32	-	-	(586,150)	-	-	(586,150)	(9,050)	(595,200)
Appropriations of loss on disposal of treasury stock		-	-	(295)	-	295	-	-	-
Changes in consolidation scope		-	-	-	-	-	-	503,588	503,588
Change in ownership interest in subsidiaries		-	-	-	-	(253,445)	(253,445)	36,457	(216,988)
Others		-	-	-	-	14,154	14,154	18,533	32,687
Balance at December 31, 2011		₩ 1,564,499	₩ 1,440,258	₩ 10,219,633	₩ (22,865)	₩ (1,497,289)	₩ 11,704,236	₩ 833,573	₩ 12,537,809

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

KT Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2011 and 2010

(in millions of Korean won)

	Notes		2011		2010
Cash flows from operating activities					
Cash generated from operations	33	₩	2,905,037	₩	3,272,059
Interest paid			(512,643)		(554,054)
Interest received			156,932		252,161
Dividends received			15,330		50,194
Income tax paid			(414,631)		(79,470)
Income tax refund received			284		32,218
Net cash generated from operating activities			2,150,309		2,973,108
Cash flows from investing activities					
Collection of loans			66,713		13,523
Increase of loans			(71,450)		(53,621)
Disposal of available-for-sale financial assets			65,760		74,363
Acquisition of available-for-sale financial assets			(188,752)		(86,289)
Disposal of investments in jointly controlled entities and associates			102,563		48,703
Acquisition of Investments in jointly controlled entities and associates			(65,055)		(276,404)
Disposal of current and non-current financial instruments			240,779		476,443
Acquisition of current and non-current financial instruments			(257,619)		(252,035)
Disposal of property and equipment			594,250		181,425
Acquisition of property and equipment			(3,208,337)		(2,713,358)
Disposal of intangible assets			14,763		6,008
Acquisition of intangible assets			(476,888)		(331,779)
Acquisition of subsidiaries, net of cash acquired			208,752		(2,749)
Cash inflow(outflow) from changes in scope of consolidationn			326,524		(33,298)
Net cash used in investing activities			(2,647,997)		(2,949,068)

KT Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

(in millions of Korean won)

	Notes		2011		2010
Cash flows from financing activities					
Proceeds from borrowings and bonds		₩	7,224,666	₩	5,698,981
Repayments of borrowings and bonds			(6,025,054)		(5,575,825)
Settlement of derivative assets			130,119		8,959
Cash inflow from consolidated capital transaction			83,855		1,205
Cash outflow from consolidated capital transaction			(2,213)		(300)
Dividends paid to shareholders			(586,150)		(486,393)
Dividends paid to non-controlling interest			(9,050)		(6,792)
Decrease in finance leases liabilities			(47,701)		(38,183)
Net cash provided by (used in) financing activities			768,472		(398,348)
Effect of exchange rate change on cash and cash equivalents			12,744		(6,923)
Net increase(decrease) in cash and cash equivalents			283,528		(381,231)
Cash and cash equivalents					
Beginning of the period	6		1,161,641		1,542,872
End of the period	6	₩	1,445,169	₩	1,161,641

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

1. General Information

The consolidated financial statements include the accounts of KT Corporation, which is the controlling company as defined under Korean IFRS 1027, *Consolidated and Separate Financial Statements*, and its 51 controlled subsidiaries as described in Note 1.2 (collectively referred to as the "Company").

1.1 The Controlling Company

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. The headquarters are located in Seongnam-si, Gyeonggi-do, Republic of Korea, and the address of its registered head office is 206, Jungja-dong, Bundang-gu, Seongnam-si, Gyeonggi-do.

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 Depository 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 additional ADS representing 55,502,161 government-owned shares were issued at the New York Stock Exchange and London Stock Exchange.

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, 2011, the Korean government does not own any share in the Controlling Company.

On June 1, 2009, the Controlling Company, which is an existing company, was merged with KT Freetel Co., Ltd., which was a subsidiary, to enhance the efficiency of business management.

1.2 Consolidated Subsidiaries

The consolidated subsidiaries as of December 31, 2011, are as follows:

(in millions of Korean won)

Subsidiary	Type of Business	Location	Percentage of ownership (%)[1]	Financial year end
KT Powertel Co.,Ltd[2].	Trunk radio system business	Domestic	44.8	12.31
KT Networks Corporation	Group telephone management	Domestic	100.0	12.31
KT Linkus Co.,Ltd.	Public telephone maintenance	Domestic	93.8	12.31
KT Telecop Co.,Ltd.	Security service	Domestic	88.1	12.31
KT Hitel Co.,Ltd.	Data communication	Domestic	65.9	12.31
KT Commerce Inc.	B2C, B2B service	Domestic	100.0	12.31
KT Tech, Inc.	PCS handset development	Domestic	93.8	12.31
KT Capital Co.,Ltd.	Financing service	Domestic	100.0	12.31
KT New Business Fund No.1	Investment fund	Domestic	100.0	12.31
Gyeonggi-KT Green Growth Fund	Venture investment of Green Growth Business	Domestic	56.5	12.31
KTC Media Contents Fund 1[3]	New technology investment fund	Domestic	1.8	4.30
KTC Media Contents Fund 2	New technology investment fund	Domestic	85.7	12.31
KT Strategic Investment Fund No.1	Investment fund	Domestic	100.0	12.31
BC card co., Ltd.[4]	Credit card business	Domestic	38.9	12.31
VP Inc.	Payment security service for credit card and etc.	Domestic	50.9	12.31
H&C Network[1]	Call centre for financial sectors	Domestic	100.0	12.31
BC card China Co.,Ltd.	Research and development of calculation system and software	Domestic	100.0	12.31
U Payment Co., Ltd.	Transportation card issuance and operations	Domestic	99.1	12.31
INITECH Co., Ltd.	Internet banking ASP and security solutions	Domestic	57.0	12.31
InitechSmartro Holdings Co., Ltd.	Holdings company	Domestic	100.0	12.31
Smartro Co.Ltd.	VAN(Value Added Network) business	Domestic	74.5	12.31
Pay N Mobile Co., Ltd.	Wired and wireless communication resale	Domestic	100.0	12.31
Sidus FNH Corporation	Movie production	Domestic	51.0	12.31
Nasmedia, Inc.	Online advertisement	Domestic	51.4	12.31
Sofnics, Inc.	Software development and sales	Domestic	60.0	12.31
KT Edui Co.,Ltd.	Online education business	Domestic	54.5	12.31
KTDS Co., Ltd.	System integration and maintenance	Domestic	95.3	12.31
KT M Hows Co.,Ltd.	Mobile marketing	Domestic	51.0	12.31
KT M&S Co.,Ltd.	PCS distribution	Domestic	100.0	12.31
KT Music Corporation[2]	Online music production and distribution	Domestic	48.7	12.31
KT Innotz Inc.	Software and solution related cloud computing	Domestic	100.0	12.31
KT Skylife Co.,Ltd.	Satellite broadcasting business	Domestic	50.3	12.31
Korea HD Broadcasting Corp.	TV contents provider	Domestic	92.6	12.31
KT Estate Inc.	Residential Building Development and Supply	Domestic	100.0	12.31
KT AMC Co.,Ltd.	Asset management and consulting services	Domestic	100.0	12.31
NEXR Co.,Ltd.	Cloud system implementation	Domestic	65.7	12.31
KTSB Data service	Data centre development and related service	Domestic	51.0	12.31
KT Cloudware Corporation	Development of cloud computing operation	Domestic	100.0	12.31
KC smart service Co.,Ltd.	U-City solution business	Domestic	82.8	12.31
Enswers Inc.	Video-clip searching service	Domestic	56.3	12.31

Revlix Inc.	Development of mobile SNS application	Domestic	100.0	12.31
Soompi Meidia, LLC	Domestic marketing for a website “soompi.com”	Domestic	100.0	12.31
Soompi USA, LLC	Operation service for “soompi.com”	USA	100.0	12.31
OIC Korea Co.,Ltd.	Development and distribution of education contents and software	Domestic	79.2	12.31
Korea Telecom Japan Co., Ltd.	Foreign telecommunication business	Japan	100.0	12.31
Korea Telecom China Co., Ltd.	Foreigntelecommunication business	China	100.0	12.31
KTSC Investment Management B.V	Management of Investment in Super iMax and East Telecom	Netherlands	60.0	12.31
Super iMax	Wireless high speed internet business	Uzbekistan	100.0	12.31
East Telecom	Fixed line telecommunication business	Uzbekistan	91.0	12.31
Korea Telecom America, Inc.	Foreign telecommunication business	USA	100.0	12.31
PT. KT Indonesia	Foreign telecommunication business	Indonesia	99.0	12.31

[1] Sum of the ownership interests owned by the Controlling Company and subsidiaries.
[2] Even though the Controlling Company has less than 50% ownership in these subsidiaries (KT Powertel Co.,Ltd.: 44.8%, KT Music Corporation: 48.7%), these entities are consolidated in consideration of the dispersion of the non-controlling interests and historical voting pattern at the shareholders’ meetings.
[3] Even though KT Capital Co.,Ltd. , a subsidiary of the Controlling Company, has less than 50% ownership in KTC Media Contents Fund 1 (1.8%), KTC Media Contents Fund 1 is consolidated in consideration that KT Capital Co.,Ltd is a general partner with unlimited liability and has power to govern operating policies based on the agreement.
[4] KT Capital Co.,Ltd., which is a subsidiary of the Controlling Company, has less than 50% ownership in BC Card Co.,Ltd.(38.9%). However, as KT capital has the right to appoint the majority of the members of the board of directors based on the agreement with Vogo-BCC Investment Holdings Co.,Ltd.(24.6%) and KGF-BCC LIMITED(6.1%). The Controlling Company is considered to have control of BC Card Co.,Ltd. and therefore BC Card Co.,Ltd is included in the scope of consolidation.

Changes in scope of consolidation in 2011 are as follows:

Changes	Location	Subsidiaries	Reason
Inclusion	Domestic	KT Skylife Co.,Ltd. and its subsidiaries(Korea HD Broadcasting Corp.), NEXR Co.,Ltd., OIC Korea Co.,Ltd., Enswers Inc., Revlix Inc., Soompi Meidia, LLC, BC card co., Ltd., VP Inc., U Payment Co., Ltd., H&C Network, INITECH Co., Ltd., InitechSmartro Holdings Co., Ltd., Smartro Co.Ltd., Pay N Mobile Co., Ltd.	Acquisition of ownership interest
		KT AMC Co.,Ltd., KTSB Dataservice, KT Cloudware Corporation, KC smart service Co.,Ltd.	Newly incorporated
	USA	Soompi USA, LLC	Acquisition of ownership interest
	China	BC card China Co.,Ltd.	
Exclusion	Russia	New Telephone Company, Inc. and its subsidiaries(Helios TV, Novaya Svyaz)	Disposal of ownership interest[1]
	Domestic	KT Internal venture Fund NO.2	Liquidation

[1] As described in Note 38, the Company lost its control over New Telephone Company, Inc. due to the disposal of its interest in 2011. The profit of ₩220,254million from this transaction is accounted for as profit from the discontinued operations.

A summary of financial data of the major consolidated subsidiaries as of and for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011			
	Total assets	**Total liabilities**	**Operating revenue**	**Net income(loss)**
KT Powertel Co.,Ltd.	₩ 167,075	₩ 59,061	₩ 126,759	₩ 14,569
KT Networks Corporation	212,867	161,864	375,773	389
KT Linkus Co.,Ltd.	67,419	64,081	78,198	(6,667)
KT Telecop Co.,Ltd.	156,479	106,836	261,172	7,075
KT Hitel Co.,Ltd.[1]	249,730	69,376	468,489	(2,002)
KT Tech, Inc.	110,923	139,873	247,443	641
KT Capital Co.,Ltd.[1]	4,454,475	4,043,072	1,011,342	25,195
H&C Network[1]	197,726	81,351	45,013	1,124
Sidus FNH Corporation	9,838	5,824	7,227	(2,975)
Nasmedia, Inc.	92,384	53,744	21,718	6,004
Sofnics, Inc.	970	521	626	(481)
KT Edui Co.,Ltd.	1,119	1,589	3,997	(2,336)
KTDS Co., Ltd.	146,236	106,006	498,107	10,298
KT M Hows Co.,Ltd.	15,148	7,078	34,933	1,092
KT M&S Co.,Ltd.	249,280	226,651	917,410	(3,256)
KT Music Corporation	27,840	7,691	31,432	(2,385)
KT Innotz Inc.	5,520	1,727	3,829	(4,623)
KT Skylife Co.,Ltd. [1]	550,443	258,231	485,225	26,649
KT Estate Inc. [1]	33,382	3,175	7,838	1,337
NEXR Co.,Ltd.	3,887	1,726	3,737	756
KTSB Dataservice	58,755	21,904	-	(149)
KT Cloudware Corporation	916	81	-	(165)
KC smart service Co.,Ltd.	25,493	357	-	(377)
Enswers Inc. [1]	16,543	18,185	797	(331)
OIC Korea Co.,Ltd.	5,201	68	30	(396)
Korea Telecom Japan Co., Ltd.	15,359	9,813	33,114	731
Korea Telecom China Co.,Ltd.	2,804	128	3,419	111
KTSC Investment Management B.V[1]	65,587	18,458	17,470	(5,026)
Korea Telecom America, Inc.	6,368	2,069	11,134	149
PT. KT Indonesia	52	1	-	(8)

(in millions of Korean won)	2010			
	Total assets	**Total liabilities**	**Operating revenue**	**Net income(loss)**
KT Powertel Co.,Ltd.	₩ 167,370	₩ 73,547	₩ 127,548	₩ 15,158
KT Networks Corporation	187,123	135,764	327,181	2,909
KT Linkus Co.,Ltd.	70,910	59,797	76,197	2,577
KT Telecop Co.,Ltd.	139,234	99,274	217,057	11,956
KT Hitel Co.,Ltd.[1]	254,292	70,045	312,576	(4,824)
KT Tech, Inc.	129,176	157,707	189,137	(13,641)
KT Capital Co.,Ltd.[1]	2,084,227	1,838,254	192,332	11,212
Sidus FNH Corporation	13,932	6,760	19,951	358
Nasmedia, Inc.	77,919	58,778	18,877	4,507
Sofnics, Inc.	1,071	135	609	(233)
KT Edui Co.,Ltd.	1,995	1,659	4,335	(2,577)
KTDS Co., Ltd.	148,685	115,791	356,160	10,760
KT M Hows Co.,Ltd.	15,939	8,804	37,638	603
KT M&S Co.,Ltd.	267,454	240,077	616,070	(17,261)
KT Music Corporation	32,885	10,352	43,332	530
KT Innotz Inc.	5,277	1,643	3,741	(1,343)
KT Estate Inc.	8,443	427	1,152	16
KT Internal venture Fund No 2	5,200	70	-	63
Korea Telecom Japan Co., Ltd.	13,627	9,154	14,632	51
Korea Telecom China Co., Ltd.	2,610	193	2,089	237
New Telephone Company, Inc.	220,209	18,610	129,248	30,962
KTSC Investment Management B.V[1]	76,094	20,122	21,271	(471)
Korea Telecom America, Inc.	5,645	1,548	8,828	136
PT. KT Indonesia	70	1	-	(43)

[1] These companies are the intermediate parent companies of other subsidiaries and the above financial information is from their consolidated financial statements.

2. Significant Accounting Policies

The principal accounting policies in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise state.

2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The Company's financial statements for the annual period beginning on January 1, 2011, have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The consolidated financial statements of the Company were prepared in accordance with Korean IFRS and are subject to Korean IFRS 1101, 'First-time Adoption of Korean IFRS'. The transition date, according to Korean IFRS 1101, from the previous accounting principles generally accepted in the Republic of Korea (the previous K-GAAP) to Korean IFRS is January 1, 2010. Reconciliations and descriptions of the effect of the transition from the previous K-GAAP to Korean IFRS on the Company's equity, comprehensive income and cash flows are described in Note 4.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011, and not early adopted by the Company are as follows.

- Amendments to Korean IFRS 1101, *Hyperinflation and Removal of Fixed Dates for first-time adopters*

As an exception to retrospective application requirements, this amendment to Korean IFRS 1101 allows a prospective application of derecognition of financial assets for transactions occurring on or after the date of transition to Korean IFRS, instead of fixed date (January 1, 2004). Accordingly, the Company is not required to restate and recognize those assets or liabilities that were derecognized as a result of a transaction that occurred before the dated of transition to Korean IFRS. This amendment will be effective for the Company from annual periods beginning on or after July 1, 2011. The Controlling Company expects that the application of this amendment would not have material impact on its consolidated financial statements.

- Amendments to Korean IFRS 1012, *Income Taxes*

According to the amendments to Korean IFRS 1012, *Income Taxes*, for the investment property that is measured using the fair value model, the measurement of deferred tax liability and deferred tax asset should reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale, unless evidences support otherwise. This amendment will be effective for the Company as of January 1, 2012. The Controlling Company expects that the application of this amendment would not have material impact on its consolidated financial statements.

- Amendments to Korean IFRS 1019, *Employee Benefits*

According to the amendments to Korean IFRS 1019, *Employee Benefits*, use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense (income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities (assets). This amendment will be effective for the Company as of January 1, 2013, and The Controlling Company is assessing the impact of application of the amended Korean IFRS 1019 on its consolidated financial statements as of the report date.

- Amendments to Korean IFRS 1107, *Financial Instruments: Disclosures*

According to the amendment, an entity should provide the required disclosures of nature, carrying amount, risk and rewards associated with all transferred financial instruments that are not derecognized from an entity's financial statements. In addition, an entity is required to disclose additional information related to transferred and derecognized financial instruments for any continuing involvement in transferred assets. This amendment will be effective for the Company from annual periods beginning on or after July 1, 2011. The Company expects additional disclosures in relation to transfer of financial instruments upon application of the above amended Korean IFRS requirement.

- Enactment of Korean IFRS 1113, *Fair value measurement*

Korean IFRS 1113, *Fair value measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within the Korean IFRSs. This amendment will be effective for the Company as of January 1, 2013, and the Controlling Company expects that it would not have a material impact on the consolidated financial statements.

2.2 Consolidation

The Company's consolidated financial statements are prepared in accordance with Korean IFRS

1027, *Consolidated and Separate Financial Statements.*

(1) Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally which have more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The company also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Company's voting rights relative to the size and dispersion of holdings of other shareholders give the company the power to govern the financial and operating policies and others.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. Subsidiaries are de-consolidated from the date that control ceases.

The Company uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of subsidiary is the fair value of the assets transferred, equity interests issued and liabilities incurred or assumed at the date of acquisition. The consideration transferred includes the fair value of any assets or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company measures any non-controlling interests in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets in the event of liquidation. Other non-controlling interests are measured at the fair value unless otherwise required by other standards.

Acquisition-related costs are expense as incurred. If a business combination is achieved in stages, the acquirer's previously held ownership of the acquire is re-measured at the fair value at the acquisition date and the resulting gain or loss is recognized as the profit and loss.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with Korean IFRS 1039, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in case of a bargain purchase, the difference is recognized directly in the statement of income.

Intercompany transactions, balances and unrealised gains and losses on transactions between consolidated companies are eliminated after considering impairment of the asset transferred. Unrealized gains and losses are eliminated after recognizing impairment of transferred assets, accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

(2) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(3) Disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(4) Associates

Associates are all entities over which the Company has significant influence but not control, generally holding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Company's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Company’s share of its associates’ post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in other reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses of an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Company should assess at the end of each reporting period whether there is any objective evidence that a investment in associates is impaired. If any such evidence exists, the Company should recognize difference between recoverable amount and carrying amount of the associates as impairment loss.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company’s interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed , where necessary, to ensure consistency with the policies adopted by the Company. Dilution gains and losses arising from investments in associates are recognized in the statement of income.

(5) Jointly controlled entities

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. As with associates, investments in jointly controlled entities are accounted for using the equity method and are initially recognized at cost. The Company’s investment in jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss. The Company does not recognize its share of profits or losses from the joint venture that result from the Company’s purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss

2.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 34). The chief operating decision-maker is responsible for making strategic decisions on resource allocation and performance assessment of the operating segments.

2.4 Foreign Currency Translation

(1) Functional and presentation currency

Items included in the financial statements of each of the consolidated companies are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in 'Korean won', which is the Controlling Company's functional and presentation currency.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income, except when deferred in other comprehensive income as qualifying cash flow hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Foreign currency translation differences on non-monetary financial assets and liabilities are recognized as a part of the fair value gain or loss. Translation differences on equity instruments classified as available-for-sale are included in other comprehensive income, while translation differences on equity instruments classified as financial assets and liabilities at fair value through profit or loss are included in the statement of income.

(3) Translation to presentation currency

The results and financial position of all consolidated companies whose functional currency is different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the end of the reporting period;
- Income and expenses are translated at an average rate for the period. However, if exchange rates fluctuate significantly, the actual rate at the date of the transaction is used; and
- All resulting exchange differences are recognized in other comprehensive income.

When the Controlling Company ceases to have control, exchange differences that were recorded in equity are recognized in profit and loss on disposal of the investment.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity. These are presented in functional currency of the foreign entity, and translated at the closing rate.

2.5 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of less than three months.

2.6 Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets where, otherwise, they are presented as non-current assets.

Trade receivables are recognized initially at fair value, less allowance for doubtful accounts. Non-current trade receivables are measured at amortized cost using the effective interest method.

2.7 Financial Assets

(1) Classification

The Company classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments and financial liabilities measured at amortized cost. Management determines the classification of financial instruments at initial recognition.

1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial instruments held for trading. Financial assets are classified in this category if acquired or incurred principally for the purpose of selling or repurchase in the short term. Derivatives that are not subject to hedge accounting are also categorized in this category.

2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The

Company's loans and receivables are classified as 'cash and cash equivalents', 'trade and other receivables', 'loans receivable', 'finance lease receivables' and 'other financial assets' in the financial statements.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months from the end of the reporting period. The available-for-sale financial assets of the Company are classified to the 'other financial assets' in the financial statements.

4) Held-to-maturity investments

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity and are categorized in 'other financial assets' in the financial statements. If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale financial assets. Held-to-maturity financial assets are included in non-current assets, except for those with maturities of less than 12 months from the end of the reporting period which are classified as current assets.

(2) Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date (the date on which the Company commits to purchase or sell the assets). Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets and liabilities at fair value through profit or loss are presented in the statement of income within 'financial income and expenses' in the period in which they arise. The Company recognizes a dividend income from financial assets at fair value through profit or loss in the statement of income when the Company's right to receive payments is established.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized at cost. Other than these investments, all available-for-sale financial assets are measured at fair value.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income. Generally, when securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are reported in the statement of income as 'gains (losses) from investment securities'.

Interest on available-for-sale financial assets calculated using the effective interest method is recognized in the statement of income as part of 'financial income'. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of 'financial income' when the Company's right to receive payments is established. However, in case a subsidiary is engaged in the financial industry, the realized accumulated fair value adjustment, interest and dividends on available-for-sale are recognized as 'operating income and expense' in the statement of income.

(3) Offsetting Financial Instruments

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

(4) Derecognition of Financial Assets

Financial assets are derecognized when the contractual rights to receive cash flows from the investments have expired or have been transferred and the Company has substantially transferred all risks and rewards of ownership. If the risk and rewards of ownership of transferred assets have not been substantially transferred, the Company reviews the level of control retained over that asset and the extent of its continuing involvement to determine if transfers do not qualify for derecognition.

Collaterals (trade receivables and other) provided in transactions of discount and factoring of trade receivables do not meet the requirements for asset derecognition if risks and rewards do not substantially transfer in the event the debtor defaults. Financial liabilities recognized in relation to these transactions are included as borrowings in the Company's statement of financial position.

2.8 Impairment of Financial Assets

(1) Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - Adverse changes in the payment status of borrowers in the portfolio;
  - National or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income. The Company may measure impairment of the financial instruments on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of income.

(2) Assets classified as available-for-sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria referred to (1) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income. The fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of income.

2.9 Derivative Financial Instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- Hedges of the fair value of a recognised asset or liability or a firm commitment (fair value hedge); or
- Hedges of a particular risk associated with a recognised asset or liability on a highly probable forecast transaction (cash flow hedge)

The Company documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes on fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes and movements on the hedging reserve in shareholders' equity are shown in Note 9. The full fair value of a hedging item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(1) Fair value hedge.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity.

(2) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is hedges is recognized in other comprehensive income. The gain of loss relating to the ineffective portion is recognized immediately as financial income (costs) in the statement of income.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate foreign borrowings is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized as financial income in the statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profits or losses in the statement of income.

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method, except for inventories in-transit which is determined using the specific identification method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

2.11 Property and Equipment

All property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributed to the acquisition of the items. However, in accordance with Korean IFRS 1101, *First-time Adoption of Korean IFRS*, the Company measured certain buildings and telecommunications equipment at fair value at the date of transition to Korean IFRS and the fair value is used as their deemed cost at that date.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

	Estimated Useful Lives
Buildings	5 – 40 years
Structures	5 – 40 years
Machinery and equipment	3 – 40 years
(Telecommunications equipment and others)	
Others	
Vehicles	4 – 6 years
Tools	4 – 6 years
Office equipment	4 – 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized as operating revenue or expenses in the statement of income.

2.12 Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at its cost less any accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using the straight-line method over their estimated useful lives.

The depreciation method, the residual value and the useful life of an asset are reviewed at least at the end of each reporting period and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

Gains or losses arising from the disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in the operating revenue and expenses in the income statement.

2.13 Intangible Assets

(1) Goodwill

Goodwill is measured as explained in Note 2.2 (1) and goodwill arising from acquisition of subsidiaries and business are included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. The calculation of the gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the acquirer's cash-generating units, or groups of cash-generating units ("CGU"), that is expected to benefit from the synergies of the combination. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(2) Intangible assets except goodwill

Intangible assets except for goodwill are measured at historical cost. These assets have definite useful lives and carried at historical cost less amortization. Amortization is calculated using the straight-line method to allocate the cost of assets over their estimated useful lives. However, facility usage rights (condominium membership and golf membership) and broadcast license are regarded as intangible assets with indefinite useful life and not amortized, because there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company.

The useful life of an asset with indefinite useful life is reviewed each period to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate. The depreciation method and useful life of an asset with definite useful life are reviewed at the end of each reporting period.

The estimated useful life used for amortizing intangible assets is as follows:

	Estimated Useful Lives
Goodwill	Unlimited useful life
Industrial property rights	2 - 10 years
Development costs	5 - 6 years
Software	2 - 10 years
Frequency usage rights	5.75 – 13 years
Others[1]	3 - 50 years

[1] Facility usage rights (condominium membership and golf membership) and broadcast license included in others are classified as intangible assets with indefinite useful life.

(3) Research and development costs

Expenditure on research is recognized as an expense as incurred. If the expense as incurred that is identifiable and when the probable future economic benefits are expected, the cost for the new merchandises and technology is recognized as intangible assets when all the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is the ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured

Other development expenditures that do not meet these criteria are recognized as expenses as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs, which are stated as intangible assets, are amortized using the straight-line method when the assets are available for use and are tested for impairment.

2.14 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.15 Government Grants

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the statement of income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property and equipment are deferred and are credited to the statement of income on a straight-line basis over the expected lives of the related assets.

2.16 Impairment of Non-Financial Assets

Assets that have an indefinite useful life such as goodwill are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Financial liabilities

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

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if acquired or incurred principally for the purpose of selling or repurchase in the short term. Derivatives that are not subject to hedge accounting are also categorized in this category.

(2) Financial liabilities measured at amortized cost

The Company classifies non-derivative financial liabilities as financial liabilities measured at amortized cost, except for financial liabilities at fair value through profit or loss or for financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition. For cases not qualifying for derecognition, the transferred asset continues to be recognized and a financial liability is measured as the consideration received. Financial liabilities measured at amortized cost are included in non-current liabilities, except for liabilities with maturities of less than 12 months as of the end of the reporting period, which are classified as current liabilities.

2.18 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities. Trade payables are initially recognized at fair value.

2.19 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee is initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the amounts below. Any increase in the liability relating to guarantees is reported as other financial liabilities:

- The amounts determined in accordance with Korean IFRS 1037 *Provisions Contingent Liabilities and Contingent Assets,* or

- The amounts initially recognized less the accumulated amortization accordance with Korean IFRS 1018 *Revenue*

2.20 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method. However, in case a subsidiary is engaged in the financial industry, the interest expenses are recognized as operating expenses since it is considered as a main business activity of the subsidiary.

The Company classifies the liability as current when it does not have an unconditional right to defer its settlement for at least 12 months after the reporting date.

2.21 Employee Benefits

(1) Retirement benefit liabilities

The liability recognized in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. To the extent that the benefits are already vested following the introduction of or changes to, a defined benefit plan, past-service costs are recognized immediately in income, while costs are amortized over the vesting period for the unvested benefits.

(2) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

2.22 Share-based payments

The Controlling Company operates share-based compensation plans, under which the Controlling Company receives services from employees as consideration for equity instruments (options) of the Controlling Company. The fair value of the employee services received in exchange for the grant of the options is recognized as a compensation expense in the statement of income over the vesting period.

2.23 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provisions due to passage of time is recognized as an interest expense.

2.24 Leases

(1) The Company as the Lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

Lease of property and equipment where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the outstanding balance. The corresponding rental obligations, net of finance charges, are included in the finance lease liabilities.

The interest element of the finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

(2) The Company as the Lessor

For finance leases, lease receivables are recognized at the amount equivalent to the net investment in the lease asset. The Company recognizes interest income, which is calculated for net finance lease receivable based on effective interest rate. Lease income from operating leases shall be recognized on a straight-line basis over the lease term. Initial direct costs incurred by lessors in negotiating and arranging operating leases shall be added to the carrying amount of the lease asset and recognized as the expenses over the lease term corresponding to the lease income.

2.25 Dividend Distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.26 Capital Stock

Common stocks are classified as equity. Incremental costs directly attributable to the issue of new common stocks or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Controlling Company purchases its own equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the

Controlling Company's equity holders until the stocks are cancelled or reissued. Where such shares are subsequently reissued, any consideration received is included in equity attributable to the Controlling Company's equity holders.

2.27 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Company.
The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(1) Sales of Services

When providing interconnection or telecommunications service to a customer based on service plans, the related revenue is recognized at the time service is provided. If the customer uses the telecommunications equipment according to the service plans, the related revenue is recognized on straight-line basis over the contract period. Revenue related to the other telecommunications services is recognized when the service is provided to the customer.
For other services, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with such a transaction is recognized by reference to the stage of performance of the services. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Total consideration for combined services is allocated to each service in proportion to its fair value and the allocated amount is recognized as revenue according to revenue recognition policy for the service.

(2) Sales of goods

Sales of goods such as selling handsets are recognized when the Company has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

(3) Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

(4) Commission fees.

Commission fees related to credit card business recognized when it is probable that future economic benefits will flow to the entity and these benefits can be reliably measured. Revenues from acquiree fee, agent fee, optional service fees, member service fees and credit card service charge are measured at the fair value of the consideration received and recognized on a accrual basis.

(5) Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(6) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.28 Current and Deferred Income Tax

The tax expense for the period consists of current and deferred tax. Tax is recognized in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this exception, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the reporting date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention either to settle the balances on a net basis or to realize the asset and settle the liability simultaneously.

2.29 Deferred Loan Fees and Costs

Loan origination fees in relation to loan origination process such as upfront fee, are deferred and amortized over the life of the loan as an adjustment to the yield of the loan using the effective interest rate method. Loan origination costs, which relates to loan origination activities such as commissions to brokers, are deferred and amortized over the life of the loan as an adjustment to the yield of the loan, using the effective interest rate method, if the future economic benefit related costs incurred can be matched with each loan.

In addition, the amortization of the deferred loan origination fees on costs are offset and the net amounts are presented in the consolidated statement of financial position.

2.30 Non-current Assets Held for Sale and Discontinued Operations

Non-current assets (or disposal groups) are classified as ‘assets and liabilities classified as held for sale’ (or ‘groups classified as held for sale’) when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount or fair value less costs to sell.

When a component of the Company representing a separate major line of business or geographical area of operation has been disposed of, or is subject to a sale plan involving loss of control of a subsidiary, the Company discloses in the statement of income the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or group to be sold constituting the discontinued operation. The net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented in the notes to the financial statements.

3. Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

3.1 Estimated Impairment of Goodwill

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.16. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. (Note 14)

3.2 Income Taxes

Current and deferred income tax are determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

3.3 Fair Value of Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

3.4 Allowance for Doubtful Accounts

The Company uses provisions for accounting of estimated loss in customers' insolvency. When the allowance for doubtful accounts is estimated, it is based on the aging analysis of trade receivables balances, incurred loss experience, customers' credit rates and changes of payment terms. If the customer's financial position becomes worse, the actual amortization amount will be increased more than the estimated.

3.5 Post-employment Benefit Liabilities

The present value of the post-employment benefit liabilities depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the defined benefit obligation include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit obligation.

The Company determines the appropriate discount rate at the end of each reporting period. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligation. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability. Other key assumptions for defined benefit obligation are based in part on current market conditions. Additional information is disclosed in Note 19.

3.6 Deferred Revenue

Service installation fees and initial subscription fees related to activation of service are deferred and recognized as revenue over the expected terms of customer relationships. The estimate of expected terms of customer relationship is based on the historical rate. If management’s estimation is amended, it may cause significant differences in the timing of revenue recognition and amount recognized.

3.7 Provisions

As described in Note 18, the Company records provisions for litigation and assets retirement obligations as of the end of the reporting period. The provisions are estimated based on the factors such as the historical experiences.

3.8 Useful lives of Property and equipment

Depreciation on the property and equipment is calculated using straight line method over their useful lives. The estimated useful lives are determined based on expected usage of the assets and the estimates can be materially affected by technical changes and other factors. The Company will increase depreciation if the useful lives are considered shorter than the previously estimated useful lives.

4. Transition to Korean IFRS

The Company's transition date to Korean IFRS is January 1, 2010, and adoption date is January 1, 2011. The Company prepared the opening statement of financial position as of January 1, 2010.

In preparing these consolidated financial statements in accordance with Korean IFRS 1101, *First-time Adoption of Korean IFRS*, the Company has applied the mandatory exceptions and certain optional exemptions allowed by the Korean IFRS.

4.1 Exemptions options under Korean IFRS 1101

The Company has elected to apply the following optional exemptions from full retrospective application of the Korean IFRS.

(1) Business combination

The Company has not retrospectively applied Korean IFRS 1103 to the business combinations that took place prior to the transition date of January 1, 2010 (the date of transition to the Korean IFRS).

(2) Deemed cost for property and equipment

The Company has elected to measure certain property and equipment at fair value as of January 1, 2010, (the date of transition to the Korean IFRS) and uses that fair value as its deemed cost at that date. The certain buildings and telecommunications equipment were measured using fair value as its deemed cost at transition date. The adjusted amount resulting from fair value revaluation is ₩256,781million (before the income tax effects), with the total fair value of ₩6,492,658 million.

(3) Decommissioning liabilities included in the cost of property and equipment

According to Korean IFRS Interpretation 2101, *Changes in Existing Decommissioning, Restoration and Similar liabilities*, changes in a decommissioning, restoration or similar liability are added to or deducted from the cost of the asset to which it relates. The Company elects not to comply with these requirements for changes in such liabilities that occurred before the date of transition to the Korean IFRS. The amounts to be included as costs of decommissioning assets are measured by discounting the liability over the intervening period and the accumulated depreciation on that amount is calculated at the date of transition to the Korean IFRS.

(4) Borrowing costs

In respect of capitalizing borrowing costs incurred in the construction of a qualifying asset, the Company capitalizes interest on all qualifying assets for which the commencement date for capitalization is after the transition date subject to Korean IFRS 1023.

(5) Contribution for construction

Subject to Korean IFRS Interpretation 2118, the Company applies this interpretation prospectively to contribution for construction received on or after January 1, 2010 (the date of transition to Korean IFRS).

4.2 Mandatory Exceptions to Retrospective Application of Korean IFRS

The Company has applied the following mandatory exceptions.

(1) Derecognition of financial assets

The Company has prospectively applied Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*, to the transactions of financial assets after January 1, 2004. The Company has not applied Korean IFRS to transactions of financial assets before January 1, 2004, even if they met the requirements of derecognition.

(2) Exception for estimates

The Company’s estimates in accordance with Korean IFRS, at the date of transition (January 1, 2010) are consistent with estimates made for the same date in accordance with previous accounting standards(after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

4.3 Significant Differences in Accounting Policies

Significant differences between the accounting policies chosen by the Company under Korean IFRS and under Korean GAAP are as follows:

(1) Revenue recognition

Under Korean GAAP, non-refundable service installation fees for telephone and initial subscription fees for Personal Communications Services(PCS) and leased-line services are recognized as revenue when installation and initiation services are rendered. Under Korean IFRS, service installation fees, and an initial subscription fees related to activation of service, are deferred and recognized as revenue over the expected terms of customer relationship.

In addition, under Korean GAAP, as the certain real estate revenue is considered as a construction type contract, the real estate revenue is recognized on a percentage of completion basis. Under Korean IFRS, as the related real estate revenue is considered as a sale of goods, real estate revenue is recognized at the time of the transfer to customer.

(2) Employee benefits

Under Korean GAAP, provisions for severance benefits were estimated assuming all eligible employees were to terminate their employment at the end of reporting period. Under Korean IFRS, the defined benefit obligations are measured by using actuarial method.

(3) Government grants

Under Korean GAAP, government grants were presented by deducting the grant in arriving at the carrying amount of the asset. Under Korean IFRS, government grants are presented as liabilities for deferred revenue and recognized as revenue over the useful life of the asset.

(4) Goodwill or bargain purchase arising from business combinations

Under Korean GAAP, goodwill recognized at the business combination was amortized using the straight-line basis over 4~10 years from the year of acquisition and negative goodwill was recognized as income using the straight-line basis over the weighted average useful life of the acquired depreciable assets. Under Korean IFRS, goodwill is not amortized or reversed but tested for impairment at least annually. Gain on bargain purchase is recognized immediately in the statement of income.

(5) Capitalization of borrowing costs

Under Korean GAAP, borrowing costs were expensed as incurred from the initial date of manufacture, acquisition, construction and development until getting ready for its intended use or sale. Under Korean IFRS, the Company capitalizes 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.

(6) Customer loyalty programmes

Under Korean GAAP, the amount of future obligation was recognized as expense and liability provision when sales occur. Under Korean IFRS, awarded credits are separately accounted for as an identifiable component of the sales transaction in which they are granted and the related revenue is deferred.

(7) Transfer of financial assets

Under Korean GAAP, if the Company transferred a financial asset to financial institutions and it was determined that control over the asset has been transferred to financial institutions, the Company derecognized the financial asset. Under Korean IFRS, if the Company retains substantially all the risks and rewards of ownership of the asset, the asset is not derecognized but instead the related cash proceeds are recognized as financial liabilities.

(8) Deferred income tax

Under Korean GAAP, deferred tax assets and liabilities were either classified as current or non-current based on the classification of their underlying assets and liabilities. If there are no corresponding assets or liabilities the deferred tax assets and liabilities are classified based on their expected recoverable periods.

Under Korean IFRS, deferred tax and liabilities, are classified as non-current on the statement of financial position.

Under Korean GAAP, temporary differences related to investments in subsidiaries, associates and joint ventures were treated as a single difference in determining whether to recognize deferred tax assets or liabilities. Under Korean IFRS, deferred tax assets and liabilities are recognized reflecting the manner of recovery or settlement of temporary difference of each component.

4.4 Changes in Scope of Consolidation

At January 1, 2010, the date of transition, changes in the scope of consolidation as a result of adoption of Korean IFRS are as follows:

Changes	Description	Name of Entity
Excluded	Under Korean GAAP, entities of which the Company owns more than 30% of shares and is the largest shareholder with the largest voting rights were included in scope of consolidation. Under Korean IFRS, such entities are not subject to consolidation unless control over the entity is established.	KT Submarine Co., Ltd. Sidus FNH Benex, Cinema Investment Fund No.1
	Under Korean GAAP, Private Equity Fund under the *Indirect Investment Asset Management Business Act, which the Company is a managing partner of,* was included in scope of consolidation. Under Korean IFRS, such entities are not subject to consolidation unless control over the entity is established.	Vanguard Private Equity Fund
Newly added	-	-

As a result of adoption of Korean IFRS, three subsidiaries are excluded from scope of consolidation at the date of transition.

4.5 Reconciliation between Korean IFRS and Korean GAAP

(1) Effects on the consolidated total assets, liabilities and equity as of January 1, 2010, the transition date of Korean IFRS

(in millions of Korean won)	Total assets	Total liabilities	Total equity
Reported amount under K- GAAP	₩ 26,620,317	₩ 15,952,878	₩ 10,667,439
Adjustments :			
Change in revenue recognition of certain real estate sales	(176,352)	23,345	(199,697)
Deferred revenue such as initial subscription fees	-	255,034	(255,034)
Deemed cost of property and equipment	256,781	-	256,781
Valuation of financial instruments (present value and others)	(6,503)	(122)	(6,381)
Actuarial estimation of post employment benefit	259	(251,011)	251,270
Readjustments of asset retirement obligation	3,335	9,639	(6,304)
Reclassifications of government grants	8,227	8,610	(383)
Effect of changes in the scope of consolidation	(77,759)	(13,349)	(64,410)
Others	36,541	(36,069)	72,610
Tax-effect on adjustments	(1,152)	(77)	(1,075)
Total	43,377	(4,000)	47,377
Adjusted amount under Korean IFRS	₩ 26,663,694	₩ 15,948,878	₩ 10,714,816

(2) Effects on the consolidated total assets, liabilities and equity as of December 31, 2010

(in millions of Korean won)	Total Assets	Total liabilities	Total equity	Compre-hensive income
Reported amount under K- GAAP	₩ 27,713,459	₩ 16,217,787	₩ 11,495,672	₩ 1,151,049
Adjustments :				
Change in revenue recognition of certain real estate sales	11,127	23,536	(12,409)	187,288
Deferred revenue such as initial subscription fees	1,519	239,614	(238,095)	16,939
Deemed cost of property and equipment	256,781	-	256,781	-
Effect of depreciation cost to apply deemed cost and others	(112,190)	-	(112,190)	(112,215)

Valuation of financial instruments (present value and others)	(7,919)	(211)	(7,708)	(1,118)
Actuarial estimation of post employment benefit	280	(91,869)	92,149	(158,984)
Readjustments of asset retirement obligation	1,320	8,229	(6,909)	(613)
Reclassifications of government grants	26,258	25,604	654	654
Capitalization of borrowing cost	16,550	-	16,550	16,550
Effect of changes in the scope of consolidation	(1,083,170)	(847,697)	(235,473)	(14,673)
Others	105,129	10,642	94,487	30,804
Tax-effect on adjustments	12,459	1,913	10,546	10,382
Total	(771,856)	(630,239)	(141,617)	(24,986)
Adjusted amount under Korean IFRS	₩ 26,941,603	₩ 15,587,548	₩ 11,354,055	₩1,126,063

(3) Adjustments to the statement of cash flows

According to Korean IFRS, cash flows of the related income (expenses) and assets (liabilities) are adjusted to separately disclose the cash flows from interest received, interest paid and cash payments of income taxes that were not presented separately under Korean GAAP. Also, other Korean IFRS transition effects are reflected on cash flows if they have an effect on cash flow.

5. Financial Instruments by category

Financial instruments by category as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31					
Financial assets	**Loans and receivables**	**Assets at fair value through the profit and loss**	**Derivatives used for hedge**	**Available-for-sale**	**Held-to-Maturity**	**Total**
Cash and cash equivalents	₩ 1,445,169	₩ -	₩ -	₩ -	₩ -	₩ 1,445,169
Trade and other receivables	7,882,329	-	-	-	-	7,882,329
Loans receivable	1,189,331	-	-	-	-	1,189,331
Finance lease receivables	736,660	-	-	-	-	736,660
Other financial assets	280,700	5,538	160,283	428,796	7	875,324

(*in millions of Korean won)*	2011.12.31			
Financial liabilities	**Liabilities at fair value through the profit and loss**	**Derivatives used for hedge**	**Financial liabilities at amortized cost**	**Total**
Trade and other payables	₩ -	₩ -	₩ 6,542,138	₩ 6,542,138
Finance lease liabilities	-	-	136,197	136,197
Borrowings	-	-	10,998,552	10,998,552
Other financial liabilities	2,730	6,076	287,954	296,760

(in millions of Korean won)	2010.12.31					
Financial assets	**Loans and receivables**	**Assets at fair value through the profit and loss**	**Derivatives used for hedge**	**Available-for-sale**	**Held-to-maturity**	**Total**
Cash and cash equivalents	₩ 1,161,641	₩ -	₩ -	₩ -	₩ -	₩ 1,161,641
Trade and other receivables	5,318,713	-	-	-	-	5,318,713
Loans receivable	1,133,221	-	-	-	-	1,133,221
Finance lease receivables	597,339	-	-	-	-	597,339
Other financial assets	106,630	6,010	247,794	178,609	7	539,050

(in millions of Korean won)	2010.12.31			
Financial liabilities	**Liabilities at fair value through the profit and loss**	**Derivatives used for hedge**	**Financial liabilities at amortized cost**	**Total**
Trade and other payables	₩ -	₩ -	₩ 4,805,705	₩ 4,805,705
Finance lease liabilities	-	-	93,856	93,856
Borrowings	-	-	9,382,364	9,382,364
Other financial liabilities	634	19,837	18,455	38,926

(in millions of Korean won)	2010.1.1					
Financial assets	**Loans and receivables**	**Assets at fair value through the profit and loss**	**Derivatives used for hedge**	**Available-for-sale**	**Held-to-maturity**	**Total**
Cash and cash equivalents	₩ 1,542,872	₩ -	₩ -	₩ -	₩ -	₩ 1,542,872
Trade and other receivables	4,515,007	-	-	-	-	4,515,007
Loans receivable	911,229	-	-	-	-	911,229
Finance lease receivables	522,765	-	-	-	-	522,765
Other financial assets	346,596	31,368	295,058	117,280	82	790,384

(in millions of Korean won)	2010.1.1			
Financial liabilities	**Liabilities at fair value through the profit and loss**	**Derivatives used for hedge**	**Financial liabilities at amortized cost**	**Total**
Trade and other payables	₩ -	₩ -	₩ 5,583,679	₩ 5,583,679
Finance lease liabilities	-	-	7,553	7,553
Borrowings	-	-	9,566,700	9,566,700
Other financial liabilities	7,497	3,782	15,586	26,865

Income or expense (gain or loss) by financial instruments category for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31
Loans and receivables		
Interest income[1]	₩ 314,125	₩ 253,437
Gain or loss on valuation	(146,177)	(194,005)
Foreign currency transaction gain or loss	5,284	(15,227)
Foreign currency translation gain or loss	4,646	(2,967)
Gain or loss on disposal	(3,807)	(482)

Assets at fair value through the profit and loss		
Interest income[1]	10,684	3,048
Dividend income	13	2
Gain or loss on valuation	10,263	14,460
Foreign currency transaction gain or loss	8	352
Foreign currency translation gain or loss	116	3
Gain or loss on disposal	(1,120)	92
Reclassified to profit or loss from other comprehensive income[2,3]	879	-
Derivatives used for hedging		
Transaction gain or loss	(26,882)	(824)
Gain or loss on valuation	43,755	114
Other comprehensive income[2]	13,509	(27,897)
Reclassified to profit or loss from other comprehensive income[2,4]	6,374	3,259
Available -for-sale		
Interest income[1]	219	998
Dividend income	7,840	561
Gain or loss on disposal	6,724	2,305
Impairment loss	(4,727)	(6,043)
Other comprehensive income[2]	80,521	(1,324)
Reclassified to profit or loss from other comprehensive income[2]	(1,764)	3,553
Liabilities at fair value through the profit and loss		
Interest expense[1]	(11,777)	(5,380)
Gain or loss on valuation	(142)	4,998
Gain or loss on disposal	40	(732)
Derivatives used for hedging		
Gain or loss on valuation	1,041	(12,810)

Other comprehensive income[2]	8,205	(20,692)
Financial liabilities at amortized cost		
Interest expense[1,5]	(576,589)	(580,082)
Foreign currency transaction gain or loss	4,063	11,685
Foreign currency translation gain or loss	(83,939)	36,303
Financial guarantee gain or loss	(4,973)	(239)
Total	₩ (343,588)	₩ (533,534)

[1] Interest income recognized as operating revenue is ₩ 173,740million (2010: ₩ 160,043million) and interest expense recognized as operating expense is ₩ 106,951million (2010: ₩ 95,537million) for the year ended December 31, 2011.
[2] The amounts directly reflected in equity before adjustments of deferred income tax.
[3] The Company discontinued prospectively hedge accounting for certain cash flow hedge derivatives, which are reclassified as financial instruments at fair value through profit or loss. The related gain or loss on valuation of cash flow hedge in other comprehensive income was reclassified to profit or loss for the period (Note 9).
[4] During the period, the certain derivatives of the Company were settled and the related gain or loss on valuation of cash flow hedge in other comprehensive income was reclassified to profit or loss for the period.
[5] The amounts reflected as interest expense arising from derivatives.

6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Cash on hand	₩ 11,330	₩ 8,646	₩ 3,212
Cash in banks	652,374	418,984	351,243
MMT	464,000	320,000	108,000
Other financial instruments	317,465	414,011	1,080,417
Total	₩ 1,445,169	₩ 1,161,641	₩ 1,542,872

Cash and cash equivalents in the statement of financial position equal cash and cash equivalents in the statements of cash flows.

Restricted cash and cash equivalents as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	Type	**2011.12.31**	**2010.12.31**	**2010.1.1**	**Description**
Cash and cash equivalents	Restricted deposit	₩ 8,707	₩ 9,494	₩ 10,341	Deposit restricted for governmental project

7. Trade and Other Receivables

Trade and other receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31			
	Total amounts	**Allowance for doubtful accounts**	**Present value discount**	**Carrying value**
Current assets				
Trade receivables	₩ 5,318,171	₩ (462,502)	₩ (64,229)	₩ 4,791,440
Other receivables	1,536,616	(169,042)	(100)	1,367,474
Total	₩ 6,854,787	₩ (631,544)	₩ (64,329)	₩ 6,158,914
Non-current assets				
Trade receivables	₩ 1,452,685	₩ (10,716)	₩ (115,171)	₩ 1,326,798
Other receivables	442,640	(97)	(45,926)	396,617
Total	₩ 1,895,325	₩ (10,813)	₩ (161,097)	₩ 1,723,415

(in millions of Korean won)	2010.12.31			
	Total amounts	**Allowance for doubtful accounts**	**Present value discount**	**Carrying value**
Current assets				
Trade receivables	₩ 4,318,381	₩ (495,049)	₩ (48,699)	₩ 3,774,633
Other receivables	563,403	(144,408)	(251)	418,744
Total	₩ 4,881,784	₩ (639,457)	₩ (48,950)	₩ 4,193,377
Non-current assets				
Trade receivables	₩ 880,214	₩ (7,199)	₩ (76,636)	₩ 796,379
Other receivables	361,402	(307)	(32,138)	328,957
Total	₩ 1,241,616	₩ (7,506)	₩ (108,774)	₩ 1,125,336

(in millions of Korean won)	2010.1.1			
	Total amounts	**Allowance for doubtful accounts**	**Present value discount**	**Carrying value**
Current assets				
Trade receivables	₩ 3,886,679	₩ (462,430)	₩ (28,167)	₩ 3,396,082
Other receivables	500,423	(160,173)	(964)	339,286
Total	₩ 4,387,102	₩ (622,603)	₩ (29,131)	₩ 3,735,368

Non-current assets				
Trade receivables	₩ 448,218	₩ (2,778)	₩ (48,592)	₩ 396,848
Other receivables	419,652	(102)	(36,759)	382,791
Total	₩ 867,870	₩ (2,880)	₩ (85,351)	₩ 779,639

The fair values of trade and other receivables with maturities less than one year equal their carrying values because the discounting effect is immaterial. The fair value of other trade and other receivables with original maturities longer than one year, which are mainly from sales of goods, is determined discounting the expected future cash flow at the weighted average borrowing rate.

Details of changes in allowance for doubtful accounts for the years ended December 31, 2011 and 2010, are as follows:

	2011		2010	
(in millions of Korean won)	**Trade receivables**	**Other receivables**	**Trade receivables**	**Other receivables**
Beginning balance	₩ 502,248	₩ 144,715	₩ 465,208	₩ 160,275
Provision	109,034	24,408	151,475	6,672
Reversal or written-off	(160,173)	(7,183)	(110,464)	(21,467)
Changes in the scope of consolidation	21,954	5,016	(2,064)	(437)
Others	155	2,183	(1,907)	(328)
Ending balance	₩ 473,218	₩ 169,139	₩ 502,248	₩ 144,715

Provisions for doubtful trade and other receivables are recognized as operating expenses.

Details of aging analysis of trade receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Neither past due nor impaired	₩ 5,381,202	₩ 3,949,439	₩ 2,870,902
Past due and impaired			
Up to six months	560,314	643,801	580,042
Six months to twelve months	162,911	144,260	204,807
Over twelve months	487,029	335,760	602,387
Subtotal	1,210,254	1,123,821	1,387,236
Allowance for doubtful accounts	(473,218)	(502,248)	(465,208)
Total	₩ 6,118,238	₩ 4,571,012	₩ 3,792,930

The detail of other receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)		**2011.12.31**		**2010.12.31**		**2010.1.1**
Loans	₩	100,251	₩	107,274	₩	109,512
Receivables[1]		1,489,040		494,455		433,564
Accrued income		17,651		13,093		22,536
Refundable deposits		325,603		277,526		315,903
Others		685		68		837
Allowance		(169,139)		(144,715)		(160,275)
Total	₩	1,764,091	₩	747,701	₩	722,077
Current		1,367,474		418,744		339,286
Non - current		396,617		328,957		382,791

[1] The settlement receivables of BC Card Co., Ltd. of ₩ 863,853 million included, as of December 31, 2011.

Details of aging analysis of other receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)		**2011.12.31**		**2010.12.31**		**2010.1.1**
Neither past due nor impaired	₩	1,712,284	₩	726,812	₩	712,373
Past due and impaired						
Up to six months		160,612		38,312		100,060
Six months to twelve months		12,322		77,841		18,000
Over twelve months		48,012		49,451		51,919
Subtotal		220,946		165,604		169,979
Allowance for doubtful accounts		(169,139)		(144,715)		(160,275)
Total	₩	1,764,091	₩	747,701	₩	722,077

The maximum exposure of trade and other receivables to credit risk is carrying value of each class of receivables mentioned above as of December 31, 2011.

8. Loans Receivable

Loans receivable as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

Current

(in millions of Korean won)	2011.12.31		
	Original amount	**Allowance for doubtful accounts**	**Carrying value**
Factoring receivables	₩ 47,201	₩ (1,012)	₩ 46,189
Loans	640,580	(22,352)	618,228
Accounts receivable-loans	3,084	(221)	2,863
Loans for installment credit	31,044	(655)	30,389
Accounts receivable-loans for installment credit	393	(32)	361
Total	₩ 722,302	₩ (24,272)	₩ 698,030

(in millions of Korean won)	2010.12.31		
	Original amount	**Allowance for doubtful accounts**	**Carrying Value**
Factoring receivables	₩ 35,737	₩ (647)	₩ 35,090
Loans	676,273	(19,030)	657,243
Accounts receivable-loans	13,307	(2,402)	10,905
Loans for installment credit	22,849	(1,191)	21,658
Accounts receivable-loans for installment credit	528	(82)	446
Total	₩ 748,694	₩ (23,352)	₩ 725,342

(in millions of Korean won)	2010.1.1		
	Original amount	**Allowance for doubtful accounts**	**Carrying Value**
Factoring receivables	₩ 492	₩ (4)	₩ 488
Loans	422,293	(8,167)	414,126
Accounts receivable-loans	2,149	(427)	1,722
Loans for installment credit	29,298	(2,882)	26,416
Deferred loan origination costs	170	-	170
Accounts receivable-loans for installment credit	924	(124)	800
Total	₩ 455,326	₩ (11,604)	₩ 443,722

Non-Current

(in millions of Korean won)	2011.12.31 Original amount	Allowance for doubtful accounts	Carrying value
Factoring receivables	₩ 23,948	₩ (513)	₩ 23,435
Loans	338,870	(11,474)	377,396
Deferred loan origination fees	(987)	-	(987)
Loans for installment credit	45,358	(954)	44,404
Deferred loan origination costs	1,457	-	1,457
New technology financial investment assets	10,241	(3,668)	6,573
New technology financial loans	41,729	(2,706)	39,023
Total	₩ 510,616	₩ (19,315)	₩ 491,301

(in millions of Korean won)	2010.12.31 Original amount	Allowance for doubtful accounts	Carrying value
Loans	₩ 349,734	₩ (8,904)	₩ 340,830
Deferred loan origination fees	(1,030)	-	(1,030)
Loans for installment credit	30,564	(1,382)	29,182
Deferred loan origination costs	951	-	951
New technology financial investment assets	7,876	(1,371)	6,505
New technology financial loans	32,015	(574)	31,441
Total	₩ 420,110	₩ (12,231)	₩ 407,879

(in millions of Korean won)	2010.1.1 Original amount	Allowance for doubtful accounts	Carrying value
Factoring receivables	₩ 17,528	₩ (96)	₩ 17,432
Loans	404,028	(4,870)	399,158
Deferred loan origination fees	(3,746)	-	(3,746)
Loans for installment credit	42,570	(2,881)	39,689
New technology financial investment assets	5,846	(1,027)	4,819
New technology financial loans	10,213	(58)	10,155
Total	₩ 476,439	₩ (8,932)	₩ 467,507

The fair values of trade and other receivables with maturities less than one year equal their carrying values because the discounting effect is immaterial. The fair value of loans receivables is determined discounting the future cash flow at the weighted average borrowing rate.

Details of changes in allowance for doubtful accounts for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)		**2011**		**2010**
Beginning	₩	35,583	₩	20,536
Provision		30,808		30,808
Reversal or written-off		(22,804)		(8,470)
Others		-		(7,291)
Ending	₩	43,587	₩	35,583

Provisions for doubtful loans receivable are recognized as operating expenses.

Details of aging analysis of loans receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)		**2011.12.31**		**2010.12.31**		**2010.1.1**
Neither past due nor impaired	₩	1,147,671	₩	1,094,265	₩	881,471
Past due and impaired						
Up to six months		85,247		64,672		38,840
Six months to twelve months		-		8,955		7,510
Over twelve months		-		912		3,944
Subtotal		85,247		74,539		50,294
Allowance for doubtful accounts		(43,587)		(35,583)		(20,536)
Total	₩	1,189,331	₩	1,133,221	₩	911,229

The maximum exposure of loans receivables to credit risk is carrying value as of December 31, 2011.

9. Other Financial Assets and Liabilities

Other financial assets and liabilities as of December 31, 2011 and 2010, January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31		2010.12.31		2010.1.1	
Other financial assets						
Derivatives	₩	164,434	₩	250,630	₩	308,324
Financial instruments [1]		289,628		116,269		370,262
Available-for-sale financial assets		421,255		172,144		111,716
Held-to-maturity investments		7		7		82
Less: Non-current		(621,699)		(269,358)		(403,667)
Current	₩	253,625	₩	269,692	₩	386,717
Other financial liabilities						
Derivatives	₩	8,806	₩	20,471	₩	11,279
Financial liabilities		287,954		18,455		15,586
Less: Non-current		(288,473)		(37,783)		(19,487)
Current	₩	8,287	₩	1,143	₩	7,378

[1] Financial assets amounting to ₩22,900million (2010: ₩6,741 million) and ₩123 million (2010: ₩49 million) are collaterals pledged against the investee's debt and checking account deposit, which are subject to withdrawal restrictions.

Derivatives as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31		2010.12.31		2010.1.1	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swap	₩ 49,485	₩ 180	₩ 1,213	₩ 213	₩ 23	₩ 5,775
Currency swap	110,798	6,076	246,716	19,852	295,035	3,782
Currency forward	-	292	-	406	288	1,722
Other derivatives[1]	4,151	2,258	2,701	-	12,978	-
Total	₩ 164,434	₩ 8,806	₩ 250,630	₩ 20,471	₩ 308,324	₩ 11,279
Less:						
Non-current						
Interest rate swap	(3)	(45)	-	-	(23)	(119)
Currency swap	(110,798)	(1,076)	(97,166)	(19,837)	(295,035)	(3,782)
	(110,801)	(1,121)	(97,166)	(19,837)	(295,058)	(3,901)
Current	₩ 53,633	₩ 7,685	₩ 153,464	₩ 634	₩ 13,266	₩ 7,378

[1] H&C Network, a subsidiary of the Company, has entered into the option contract included in the share transfer agreement with 14 shareholders including the major shareholder of Initech Smartro Holdings Co., Ltd and Smartro Co., Ltd.. On July 8, 2010, 135,796 shares out of 203,694 shares

included in the option contract were transferred according to the above agreement. The Company may receive the request for the exercise of the option for the remaining 67,898 shares under option contract.

The full value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedging item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

The valuation gains and losses on the derivatives contracts for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011				
	For trading		**For hedging**		
Type of Transaction	**Valuation gain**	**Valuation loss**	**Valuation gain**	**Valuation loss**	**Accumulated other comprehensive income**[1]
Interest rate swap [2]	₩ 3	₩ 45	₩ -	₩ -	₩ -
Currency swap [3,4]	10,230	-	53,727	8,931	21,714
Currency forward[5]	294	180	-	-	-
Other derivatives[5]	2,270	36	-	-	-
Total	₩ 12,797	₩ 261	₩ 53,727	₩ 8,931	₩ 21,714

(in millions of Korean won)	2010				
	For trading		**For hedging**		
Type of Transaction	**Valuation gain**	**Valuation loss**	**Valuation gain**	**Valuation loss**	**Accumulated other comprehensive income**[1]
Interest rate swap [2,5]	₩ 4,999	₩ -	₩ 1,190	₩ -	₩ -
Currency swap [3,4]	1,311	-	33,595	47,481	(48,589)
Currency forward[5]	136	15	-	-	-
Other derivatives	14,379	-	-	-	-
Total	₩ 20,825	₩ 15	₩ 34,785	₩ 47,481	₩ (48,589)

[1] The amounts before adjustments of deferred income tax directly reflected in equity and allocation to the non-controlling interest.
[2] The interest rate swap contract is to hedge the risk of variability in future fair value of the bond.
[3] The currency swap contract is to hedge the risk of variability in cash flow from the bond.
[4] In applying the cash flow hedge accounting, the Company hedges its exposures to cash flow fluctuation until September 7, 2034.
[5] Gain on valuation of derivative recognized as operating income is ₩ 2,564 million (2010: ₩ 1,311 million) for December 31, 2011.

There is no gain or loss on valuation due to fair value valuation of bond to hedge fair value in 2011 (2010: gain on valuation of ₩ 1,190 million).

The ineffective portion of recognized in profit or loss on the cash flow hedge is gain on valuation of ₩ 2,714 million in 2011. (2010: gain on 10,341 million)

The Company discontinued prospectively hedge accounting for certain currency swaps that were previously designated as hedging instruments for cash flows because the hedge effectiveness could not be demonstrated. The derivatives were reclassified to the financial instruments at fair value through profit or loss.

Details of available-for-sale financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**2011.12.31**		**2010.12.31**		**2010.1.1**	
Marketable equity securities	₩	101,183	₩	25,469	₩	15,587
Non-marketable equity securities		294,243		145,110		92,978
Marketable debt securities		18,400		-		-
Non-marketable debt securities		7,429		1,565		3,151
Others		7,541		6,465		5,564
Less: non-current		(421,255)		(172,144)		(111,716)
Current	₩	7,541	₩	6,465	₩	5,564

Changes of available-for-sale financial assets for the years ended December 31, 2011 and 2010, are as follows;

(in millions of Korean won)	**2011**		**2010**	
Beginning	₩	178,609	₩	117,280
Acquisition		168,060		108,492
Disposal		(21,216)		(52,062)
Valuation[1]		80,521		(1,324)
Gain (loss) reclassified from equity[1]		(1,764)		3,553
Impairment		(4,727)		(6,043)
Changes in scope of consolidation		14,094		-
Others		15,219		8,713
Ending	₩	428,796	₩	178,609

[1] The amount before adjustment of deferred income tax directly reflected in equity and allocation to the non-controlling interest.

The maximum exposure of debt securities of available-for-sale financial assets to credit risk is carrying value as of December 31, 2011.

Available-for-sale financial assets are measured at fair value. However, non-marketable equity securities that do not have quoted market prices in an active market and the fair value of which cannot be reliably measured are recognized at cost and the impairment loss is recognized if any.

10. Inventories

Inventories as of December 31, 2011 and 2010, and January 1, 2010 are as follows:

	2011.12.31			2010.12.31			2010.1.1		
(in millions of Korean won)	Acquisition cost	Valuation allowance	Carrying Value	Acquisition cost	Valuation allowance	Carrying Value	Acquisition cost	Valuation allowance	Carrying Value
Merchandise	₩ 622,196	₩ (29,022)	₩ 593,194	₩ 617,919	₩ (39,695)	₩ 578,224	₩ 635,778	₩ (45,116)	₩ 590,662
Supplies	20,396	(144)	20,252	29,595	(196)	29,399	31,989	(662)	31,327
Goods in transit	-	-	-	55,564	-	55,564	69,250	-	69,250
Others	62,274	(993)	61,281	48,627	(1,197)	47,430	77,107	(2,968)	74,139
Total	₩ 704,866	₩ (30,139)	₩ 674,727	₩ 751,705	₩ (41,088)	₩ 710,617	₩ 814,124	₩ (48,746)	₩ 765,378

11. Other Assets and Liabilities

Other assets and liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Other assets			
Advance payments	₩ 136,172	₩ 141,820	₩ 102,140
Prepaid expenses	218,638	165,107	154,955
Others	41,896	6,976	7,168
Less: Non-current	(86,053)	(50,183)	(52,581)
Current	₩ 310,653	₩ 263,720	₩ 211,682
Other liabilities			
Advances received	₩ 117,178	₩ 172,560	₩ 178,941
Withholdings	52,995	36,971	43,318
Unearned revenue	71,290	2,054	27,868
Others	833	455	1,323
Less: Non-current	(32,038)	(27,212)	(28,612)
Current	₩ 210,258	₩ 184,828	₩ 222,838

12. Property and Equipment

The changes in property and equipment for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011 Land	Buildings and structures	Machinery and equipment	Others	Construction - in-progress	Total
Acquisition cost	₩ 1,127,774	₩ 3,675,370	₩ 31,441,259	₩ 1,806,746	₩ 822,637	₩ 38,873,786
Accumulated depreciation (including accumulated impairment loss and others)	(132)	(1,167,811)	(22,898,387)	(1,370,264)	(38,920)	(25,475,514)
Balance at 2011.1.1	₩ 1,127,642	₩ 2,507,559	₩ 8,542,872	₩ 436,482	₩ 783,717	₩ 13,398,272
Acquisition	5	3,541	48,258	35,901	3,158,247	3,245,952
Disposal	(35,475)	(104,079)	(108,415)	(56,414)	(363)	(304,746)
Depreciation	-	(146,096)	(2,313,287)	(165,254)	-	(2,624,637)
Transfer in (out)	3,802	94,763	3,048,999	132,114	(3,279,678)	-
Changes in scope of consolidation	115,978	39,819	79,691	24,006	17,818	277,312
Others	(10,942)	(40,097)	(76,767)	110,327	48,021	30,542
Balance at 2011.12.31	₩ 1,201,010	₩ 2,355,410	₩ 9,221,351	₩ 517,162	₩ 727,762	₩ 14,022,695
Acquisition cost	₩ 1,201,142	₩ 3,570,608	₩ 33,455,278	₩ 1,944,129	₩ 754,648	₩ 40,925,805
Accumulated depreciation (including accumulated impairment loss and others)	(132)	(1,215,198)	(24,233,927)	(1,426,967)	(26,886)	(26,903,110)

(in millions of Korean won)	2010 Land	Buildings and structures	Machinery and equipment	Others	Construction - in-progress	Total
Acquisition cost	₩ 1,202,008	₩ 3,759,859	₩ 31,414,707	₩ 2,351,662	₩ 650,978	₩ 39,379,214
Accumulated depreciation (including accumulated impairment loss and others)	(132)	(1,037,237)	(22,427,855)	(1,820,789)	(60,623)	(25,346,636)
Balance at 2010.1.1	₩ 1,201,876	₩ 2,722,622	₩ 8,986,852	₩ 530,873	₩ 590,355	₩ 14,032,578
Acquisition	-	913	54,184	71,463	2,594,060	2,720,620
Disposal	(19,823)	(42,723)	(109,038)	(45,435)	-	(217,019)
Depreciation	-	(196,724)	(2,565,191)	(164,656)	-	(2,926,571)
Transfer in (out)	6,997	125,348	2,199,428	108,388	(2,440,161)	-
Changes in the scope of consolidation	(1,412)	(2,984)	-	(97,376)	-	(101,772)
Others	(59,996)	(98,893)	(23,363)	33,225	39,463	(109,564)
Balance at 2010.12.31	₩ 1,127,642	₩ 2,507,559	₩ 8,542,872	₩ 436,482	₩ 783,717	₩ 13,398,272
Acquisition cost	₩ 1,127,774	₩ 3,675,370	₩ 31,441,259	₩ 1,806,746	₩ 822,637	₩ 38,873,786
Accumulated depreciation (including accumulated impairment loss and others)	(132)	(1,167,811)	(22,898,387)	(1,370,264)	(38,920)	(25,475,514)

Certain land and buildings are pledged as collaterals for borrowings of up to ₩1,940 million as of December 31, 2011 (2010.12.31: ₩ 3,498 million, 2010.1.1: ₩ 8,300 million).

The borrowing costs capitalized for qualifying assets amount to ₩14,675 million (2010: ₩ 17,024 million) in 2011. The interest rate applied to calculate the capitalized borrowing costs in 2011 is 5.23% to 6.83% (2010: 5.08% to 6.76%).

13. Investment Property

The changes in investment property for years ended December 31, 2011 and 2010, are as follows

(in millions of Korean won)	2011 Land	2011 Buildings	2011 Total	2010 Land	2010 Buildings	2010 Total
Acquisition cost	₩ 320,739	₩ 1,158,558	₩ 1,479,297	₩ 260,190	₩ 1,026,880	₩ 1,287,070
Accumulated depreciation (including accumulated impairment loss and others)	-	(333,047)	(333,047)	-	(257,052)	(257,052)
Balance at 2011.1.1	₩ 320,739	₩ 825,511	₩ 1,146,250	₩ 260,190	₩ 769,828	₩ 1,030,018
Disposal	(10,660)	(27,023)	(37,683)	(2,952)	(5,710)	(8,662)
Depreciation	-	(47,221)	(47,221)	-	(45,932)	(45,932)
Transfer in	15,079	82,680	97,759	63,501	107,325	170,826
Balance at 2010.12.31	₩ 325,158	₩ 833,947	₩ 1,159,105	₩ 320,739	₩ 825,511	₩ 1,146,250
Acquisition cost	325,158	1,195,175	1,520,333	320,739	1,158,558	1,479,297
Accumulated depreciation (including accumulated impairment loss and others)	-	(361,228)	(361,228)	-	(333,047)	(333,047)

The buildings mentioned above are depreciated over 10 to 40 years using the straight-line method.

The fair value of investment property is ₩ 2,524,039 million as of December 31, 2011. (2010.12.31: ₩ 2,207,754 million, 2010.1.1: ₩2,026,023 million). The fair value of investment property is estimated based on the expected cash flow.

Rental income from investment property is ₩ 150,752 million in 2011(2010: ₩ 114,779 million) and direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period are recognized as operating expenses.

Certain lands and buildings are pledged as collateral related to the rental contracts up to ₩ 70,317million as of December 31, 2011 (2010.12.31: ₩ 67,206 million, 2010.1.1: 65,092 million).

14. Intangible Assets

The changes in intangible assets for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011 Goodwill	Industrial rights	Development costs	Software	Frequency usage rights	Others[1]	Total
Acquisition cost	₩ 91,513	₩ 24,840	₩ 947,053	₩ 438,302	₩ 1,342,023	₩ 351,630	₩ 3,195,361
Accumulated amortization (including accumulated impairment loss a others)	(7,749)	(15,536)	(562,051)	(269,509)	(762,813)	(158,783)	(1,776,441)

Balance at 2011.1.1	₩ 83,764	₩ 9,304	₩ 385,002	₩ 168,793	₩ 579,210	₩ 192,847	₩ 1,418,920
Acquisition	366,858	116	156,114	100,870	441,485	415,399	1,480,842
Disposal	-	(491)	(1,849)	(105)	-	(9,444)	(11,889)
Amortization	-	(2,668)	(102,806)	(54,976)	(124,998)	(34,427)	(319,875)
Changes in scope of consolidation	-	42	257	11,467	-	80,986	92,752
Others	(1,227)	(78)	(10,090)	(1,730)	-	(4,140)	(17,265)
Balance at 2011.12.31	₩ 449,395	₩ 6,225	₩ 426,628	₩ 224,319	₩ 895,697	₩ 641,221	₩ 2,643,485
Acquisition cost	₩ 457,630	₩ 18,294	₩ 1,069,158	₩ 555,154	₩ 1,783,508	₩ 867,700	₩ 4,751,444
Accumulated amortization (including accumulated impairment loss and others)	(8,235)	(12,069)	(642,530)	(330,835)	(887,811)	(226,479)	(2,107,959)

[1] Intangible assets of KT Skylife Co.,Ltd., Enswers Inc. and BC card co., Ltd, , amounting to ₩ 391,409 million, measured at fair value in accordance with Korean IFRS 1103 "*Business Combination"* are included.

	2010						
(in millions of Korean won)	**Goodwill**	**Industrial rights**	**Development costs**	**Software**	**Frequency usage rights**	**Others**	**Total**
Acquisition cost	₩ 91,513	₩ 24,109	₩ 782,749	₩ 390,858	₩ 1,342,023	₩ 357,371	₩ 2,988,623
Accumulated amortization (including accumulated impairment loss a others)	(7,749)	(13,625)	(555,155)	(225,309)	(647,395)	(153,696)	(1,602,929)
Balance at 2010.1.1	₩ 83,764	₩ 10,484	₩ 227,594	₩ 165,549	₩ 694,628	₩ 203,675	₩ 1,385,694
Acquisition	-	738	243,198	63,862	-	23,556	331,354
Disposal	-	-	(14,248)	(5,788)	-	(4,421)	(24,457)
Amortization	-	(1,775)	(69,824)	(54,507)	(115,418)	(24,775)	(266,299)
Changes in scope of consolidation	-	-	(829)	(11)	-	(2,134)	(2,974)
Others	-	(143)	(889)	(312)	-	(3,054)	(4,398)
Balance at 2010.12.31	₩ 83,764	₩ 9,304	₩ 385,002	₩ 168,793	₩ 579,210	₩ 192,847	₩ 1,418,920
Acquisition cost	₩ 91,513	₩ 24,840	₩ 947,053	₩ 438,302	₩ 1,342,023	₩ 351,630	₩ 3,195,361
Accumulated amortization (including accumulated impairment loss and others)	(7,749)	(15,536)	(562,051)	(269,509)	(762,813)	(158,783)	(1,776,441)

The carrying value of facility usage rights with indefinite useful life not subject to amortization is₩ 153,797 million (2010.12.31: ₩ 149,847 million, 2010.1.1: ₩ 162,556 million) as of December 31, 2011.

Goodwill is allocated to the Company's cash-generating unit which is identified by operating segments. As of December 31, 2011, goodwill allocated to each cash-generation unit is as follows:

Personal[1]	₩ 65,057

Others	
KT Powertel Co.,Ltd.	1,920
BC card co., Ltd.	41,234
H&C Network	1,990
KT Music Corporation	6,724
Nasmedia	8,836
KT Skylife Co.,Ltd.	306,303
NEXR Co.,Ltd.	3,386
Enswers Inc.	12,425
OIC Korea Co.,Ltd.	1,520
Sub-total	384,338
Total	₩ 449,395

[1] The goodwill from obtaining the controlling interest in KT Freetel Co., Ltd.

Goodwill impairment reviews are undertaken annually. The recoverable amounts for some goodwill allocated to others are determined based on the related CGUs' fair value less costs to sell and the recoverable amounts of all other CGUs have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management. Cash flows beyond the Company's financial plan are extrapolated using the estimated growth rates and the growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The Company determined the gross margin rate based on past performance and its expectations of market development. The average growth rates used are estimated based on the historical growth rate. In addition, the Company estimated the pre-tax cash flow based on past performance and its expectation of market growth and the discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

As a result of the impairment test, the Company recognized the impairment losses of ₩ 1,227 million on goodwill allocated to KT Edui Co., Ltd. as operating expenses in the statement of the consolidated income. The Company considers that the carrying value of cash generating units does not exceed the recoverable amount of the CGUs other than KT Edui Co., Ltd.

15. Investments in Jointly Controlled Entities and Associates

The changes in investments in jointly controlled entities and associates for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011					
	Beginning	Acquisition (Disposal)	Reclassification	Interest in jointly controlled entities and associates[3]	Others	Ending
KT Submarine Co., Ltd.	₩ 26,828	₩ -	₩ -	₩ 2,365	₩ (7)	₩ 29,186
KT Rental	171,554	(15,849)	-	21,817	(2,287)	175,235
KTCS corporation	19,135	-	-	3,350	(2,158)	20,327
KTIS Corporation	19,048	-	-	3,473	(1,433)	21,088
KT Skylife Co.,Ltd.[1]	93,757	-	(280,772)	-	187,015	-
Korea Information & Technology Fund	122,041	-	-	1,556	(4,106)	119,491
KT-Global New Media Fund	12,662	-	-	(19)	-	12,643
Company K Movie Asset Fund No.1	9,362	-	-	231	-	9,593
Boston Global Film & Contents Fund L.P	8,822	-	-	(1,287)	-	7,535
Mongoolian Telecommunications	12,312	-	-	409	(1,489)	11,232
Metropol Property LLC	1,671	-	-	137	(62)	1,746
KT wibro infra Co., Ltd.	65,502	-	-	704	-	66,206
SMART CHANNEL Co., Ltd.[2]	-	6,000	500	(3,752)	-	2,748
Kan Communications Co.,Ltd.	-	3,000	-	(184)	-	2,816
KTF-CJ Music Contents Investment Fund	4,951	-	-	86	-	5,037
KT-DoCoMo Mobile Investment Fund	4,857	(393)	-	(11)	(346)	4,107
Others	65,559	(14,394)	32,632	(29,348)	(14,255)	40,194
Total	₩ 638,061	₩ (21,636)	₩ (247,640)	₩ (473)	₩ 160,872	₩ 529,184

(in millions of Korean won)	2010					
	Beginning	Acquisition (Disposal)	Reclassification	Interest in jointly controlled entities and associates[3]	Others	Ending
KT Submarine Co., Ltd.	₩ 24,462	₩ -	₩ -	₩ 2,884	₩ (518)	₩ 26,828
KT Rental	-	-	162,413	61	9,080	171,554
KTCS corporation	16,154	-	-	3,369	(388)	19,135
KTIS Corporation	15,661	-	-	4,411	(1,024)	19,048

KT Skylife Co.,Ltd.[1]	15,353	65,296	-	12,892	215	93,756
Korea Information & Technology Fund	115,636	-	-	6,914	(508)	122,042
KT-Global New Media Fund	12,932	-	-	(270)	-	12,662
Company K Movie Asset Fund No.1	8,806	-	-	556	-	9,362
Boston Global Film & Contents Fund L.P.	8,768	-	-	54	-	8,822
Mongolian Telecommunications	11,135	-	-	(27)	1,204	12,312
Metropol Property LLC	1,684	-	-	253	(266)	1,671
KT wibro infra Co., Ltd.	-	65,000	-	505	(3)	65,502
KTF-CJ Music Contents Investment Fund	4,954	-	-	(3)	-	4,951
KT-DoCoMo Mobile Investment Fund	4,473	-	-	384	-	4,857
Others	66,046	114,464	(116,176)	1,199	26	65,559
Total	₩ 306,064	₩ 244,760	₩ 46,237	₩ 33,182	₩ 7,818	₩ 638,061

1 As a result of acquisition of additional interest, the Controlling Company acquired control over KT Skylife Co., Ltd. and the Controlling Company's previously held equity interest in KT Skylife Co., Ltd. is measured at its fair value at the acquisition date. With regard to this transaction, the Company accounted for the difference (₩187,458 million) between the fair value of ₩ 280,773 million and carrying value of ₩ 93,315 million(including net reclassification adjustments of other comprehensive income of ₩ 291million) of the Controlling Company's previously held equity interest as 'other operating revenue' in the statement of income (Note 37).

2 The equity investment in SmartChannel Co., Ltd. amounting ₩ 500 million was reclassified from available-for-sale assets to investment in jointly controlled entities and associates in 2011.

3 These include the equity in income of jointly controlled entities and associates of ₩ 2,701 million (2010: ₩ 622 million) recognized as operating revenue and the equity in loss of jointly controlled entities and associates of ₩ 136 million (2010: ₩ 126 million) recognized as operating expenses.

The summary of financial information of joint ventures and associates as of and for the years ended December 31, 2011 and 2010, and January 1, 2010, are as follows:

	2011.12.31					
(in millions of Korean won)	Location	% of ownership interest	Assets	Liabilities	Operating revenue	Net profit (loss)
KT Submarine Co., Ltd.	Domestic	36.92%	₩ 127,062	₩ 48,004	₩ 111,453	₩ 6,700
KT Rental[1]	Domestic	58.00%	1,419,392	1,167,454	657,971	27,320

KTCS corporation[2]	Domestic	17.49%	172,267	56,071	380,506	19,922
KTIS corporation[2]	Domestic	17.80%	174,459	56,013	373,397	21,077
Korea Information & Technology Fund	Domestic	33.33%	358,475	-	15,630	2,880
KT-Global New Media Fund	Domestic	50.00%	25,822	535	-	(38)
Company K Movie Asset Fund No.1[3]	Domestic	60.00%	15,997	8	2,751	385
Boston Global Film & Contents Fund L.P.	Domestic	27.69%	27,411	204	933	(4,643)
Mongolian Telecommunications	Mongolia	40.00%	28,080	-	20,747	779
Metropol Property LLC	Uzbekistan	34.00%	4,075	846	1,512	486
KT wibro infra Co., Ltd.	Domestic	26.22%	257,744	5,220	2,294	2,863
SMART CHANNEL Co., Ltd.[1]	Domestic	65.00%	91,383	98,306	9,785	(9,471)
Kan Communications Co.,Ltd.	Domestic	50.00%	5,797	167	-	(369)
KTF-CJ Music Contents Investment Fund	Domestic	50.00%	10,076	-	318	173
KT-DoCoMo Mobile Investment Fund	Domestic	45.00%	9,286	162	92	(26)
Others			756,795	392,769	417,142	15,990
Total			₩ 3,484,121	₩ 1,825,759	₩ 1,994,531	₩ 84,028

(in millions of Korean won)	2010.12.31					
	Location	% of ownership interest	Assets	Liabilities	Operating revenue	Net profit (loss)
KT Submarine Co., Ltd.	Domestic	36.92%	₩ 106,037	₩ 33,366	₩ 71,153	₩ 8,182
KT Rental[1]	Domestic	58.00%	933,556	673,211	378,775	13,797
KTCS corporation[2]	Domestic	17.05%	168,242	53,237	353,950	16,269
KTIS Corporation[2]	Domestic	17.80%	160,555	54,849	349,114	20,536
KT Skylife Co.,Ltd.	Domestic	37.41%	533,246	385,935	431,356	42,956
Korea Information & Technology Fund	Domestic	33.33%	367,721	-	28,376	22,014
KT-Global New Media Fund	Domestic	50.00%	25,356	31	-	(539)
Company K movie asset	Domestic	60.00%	15,603	-	1,708	926

fund No.1[3]						
Boston Global Film & Contents Fund L.P.	Domestic	27.69%	32,054	204	995	186
Monogolian Telecommunications	Mongolia	40.00%	41,074	10,294	19,635	1,363
Metropol Property LLC	Uzbekistan	34.00%	2,119	273	418	418
KT wibro infra Co., Ltd.	Domestic	26.22%	338,491	88,829	373	1,739
KTF-CJ Music Contents Investment Fund	Domestic	50.00%	9,903	-	627	6
KT-DoCoMo Mobile Investment Fund	Domestic	45.00%	10,944	149	944	854
Others			450,294	186,794	746,670	(5,225)
Total			₩3,195,195	₩ 1,487,172	₩ 2,384,094	₩ 123,482

(in millions of Korean won)	2010.1.1			
	Location	% of ownership interest	Assets	Liabilities
KT Submarine Co., Ltd.	Domestic	36.92%	109,996	43,877
KTCS corporation	Domestic	20.06%	130,587	48,486
KTIS Corporation	Domestic	20.32%	126,501	45,990
KT Skylife Co.,Ltd.	Domestic	26.74%	448,079	344,151
Korea Information & Technology Fund	Domestic	33.33%	346,908	-
KT-Global New Media Fund	Domestic	50.00%	26,139	274
Company K movie asset fund No.1[3]	Domestic	60.00%	14,676	-
Boston Global Film & Contents Fund L.P	Domestic	27.69%	31,860	195
Mongolian Telecommunications	Mongolia	40.00%	33,775	6,263
Metropol Property LLC	Uzbekistan	34.00%	1,951	437
KTF-CJ Music Contents Investment Fund	Domestic	50.00%	9,959	50
KT-DoCoMo Mobile Investment Fund	Domestic	45.00%	10,048	107
Others			428,198	182,561
Total			₩ 1,718,677	₩ 672,391

[1] As a result of acquisition of additional interest, the Company has 65% of ownership in Smart Channel Co.,Ltd.; however, the entity was classified as an associate and equity-method accounting has been applied as the Company has the significant influence but no control under the arrangement of shareholders. In addition, the Company has 58% of ownership in KT Rental Co.,Ltd.; however, the entity was classified as a joint venture due to exercise of joint control under the arrangement of shareholders.
[2] At the end of the reporting period, even though the Company has ownership less than 20%, the equity method accounting has been applied as it is considered that the Company has the significant influence over the operating and financial policies of those entities.
[3] At the end of the reporting period, even though the Company has ownership more than 50%, the equity method accounting has been applied as it the Company, which is a limited partner of investment fund, cannot participate in determining the operating and financial policies.

Marketable investments in joint ventures and associates as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	2011.12.31			
	Number of shares	Market Price per Share (Korean won)	Fair Value *(In millions of Korean won)*	Carrying Value *(In millions of Korean won)*
KT Submarine Co., Ltd.	1,617,000	₩ 13,200	₩ 21,344	₩ 29,186
KTCS Corporation	8,132,130	2,070	16,834	20,327
KTIS Corporation	6,196,190	2,800	17,349	21,088
Mongolian Telecommunications	10,348,111	2,268	23,470	11,232

	2010.12.31			
	Number of shares	Market Price per Share *(in Korean won)*	Fair Value *(in millions of Korean won)*	Carrying Value *(in millions of Korean won)*
KT Submarine Co., Ltd.	1,617,000	₩ 20,550	₩ 33,229	₩ 26,828
KTCS Corporation	8,132,130	2,210	17,972	19,135
KTIS Corporation	6,196,190	3,510	21,749	19,048
Mongolian Telecommunications	10,348,111	3,413	35,319	12,312

	2010.1.1			
	Number of shares	Market Price per Share *(in Korean won)*	Fair Value *(in millions of Korean won)*	Carrying Value *(in millions of Korean won)*
KT Submarine Co., Ltd.	1,617,000	₩ 15,200	₩ 24,578	₩ 24,370
Mongolian Telecommunications	10,348,111	1,878	19,434	11,135

The accumulated comprehensive loss of joint ventures and associates as of December 31, 2011 which was not recognized by the Company is ₩22,004 million (2010.12.31 ₩ 9,857million, 2010.1.1 2010.12.31 ₩ 23,915 million).

The following equity securities owned by the Company are pledged as collaterals for Investees' borrowings.

(in millions of Korean won)	**Investee company**	**Amount**
Investments in associates	SmartChannel Co., Ltd. (formerly, Media Plus Co., Ltd.)	₩ 6,500

16. Trade and other payables

The Company's trade and other payables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Current liabilities			
Trade payables	₩ 1,635,361	₩ 1,523,983	₩ 1,492,503
Other payables	4,255,064	2,900,215	3,795,555
Total	₩ 5,890,425	₩ 4,424,198	5,288,058
Non-current liabilities			
Trade payables	₩ 24,222	₩ 41,186	14,602
Other payables	627,491	340,321	281,019
Total	₩ 651,713	₩ 381,507	295,621

Details of other payables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Non-trade payables[1]	₩ 3,214,585	₩ 1,513,325	₩ 2,449,146
Accrued expenses	543,972	716,316	628,263
Operating deposits	764,660	738,091	755,568
Others	359,338	272,804	243,597
(non-current)	(627,491)	(340,321)	(281,109)
Current	₩ 4,255,064	₩ 2,900,215	₩ 3,795,555

[1] Settlement payables of BC card Co,. Ltd. of ₩ 997,915 million related to credit card transaction included as of December 31, 2011.

17. Bonds Payable and Borrowings

Details of bonds payable and borrowings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

Bonds Payable

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

			2011.12.31		2010.12.31		2010.1.1	
Type	Maturity	Annual interest rates	Foreign currency	Korean won	Foreign currency	Korean won	Foreign currency	Korean won
MTNP notes[1]	2014.06.24	5.88%	USD 600,000	₩ 691,980	USD 600,000	₩ 683,340	USD 600,000	₩ 700,560
MTNP notes[1]	2034.09.07	6.50%	USD 100,000	115,330	USD 100,000	113,890	USD 100,000	116,760
MTNP notes[1]	2015.07.14	4.88%	USD 400,000	461,320	USD 400,000	455,560	USD 400,000	467,040
MTNP notes[1]	2016.05.03	5.88%	USD 200,000	230,660	USD 200,000	227,780	USD 200,000	233,520
MTNP notes[1]	2012.04.11	5.13%	USD 200,000	230,660	USD 200,000	227,780	USD 200,000	233,520
The 170th Public bond	2011.01.11	-	-	-	JPY12,500,000	174,635	JPY12,500,000	157,853
The 172-1st Public bond	2011.03.31	-	-	-	USD 50,000	56,945	USD 50,000	58,380
The 172-2nd Public bond[2]	2012.03.31	LIBOR(3M)+ 1.60%	USD 110,000	126,863	USD 110,000	125,279	USD 110,000	128,436
FR notes[2]	2013.09.11	LIBOR(3M)+ 1.50%	USD 200,000	230,660	USD 200,000	227,780	USD 200,000	233,520
FR notes[2]	2013.04.09	LIBOR(3M)+ 0.47%	USD 100,000	115,330	USD 100,000	113,890	-	-
The 178-1st Public bond[2]	2013.01.18	LIBOR(3M)+ 1.00%	USD 100,000	115,330	-	-	-	-
The 178-2nd Public bond[2]	2014.01.17	LIBOR(3M)+ 1.05%	USD 100,000	115,330	-	-	-	-
MTNP notes	2013.01.25	1.58%	JPY 35,000,000	519,806	-	-	-	-
The 49th Public bond	2011.02.25	-	-	-	USD 175,000	199,308	USD 175,000	204,330
The 50th Public bond	2011.04.28	-	-	-	JPY 7,000,000	97,795	JPY 7,000,000	88,397
The 51-1st Public bond	2011.06.20	-	-	-	USD 95,000	108,196	USD 95,000	110,922
The 132nd Public bond	2011.02.09	-	-	-	-	70,000	-	70,000
The 159th Public bond	2013.10.27	5.39%	-	300,000	-	300,000	-	300,000
The 160th Public bond	2010.11.24	-	-	-	-	-	-	200,000
The 161st Public bond	2010.12.23	-	-	-	-	-	-	230,000
The 162nd Public bond	2011.02.27	-	-	-	-	320,000	-	320,000
The 163rd Public bond	2014.03.30	5.51%	-	170,000	-	170,000	-	170,000
The 164th Public bond	2011.06.21	-	-	-	-	260,000	-	260,000
The 165-1st Public bond	2011.08.26	-	-	-	-	130,000	-	130,000
The 165-2nd Public bond	2014.08.26	4.44%	-	140,000	-	140,000	-	140,000
The 166-1st Public bond	2010.3.21	-	-	-	-	-	-	220,000
The 166-2nd Public bond	2012.03.21	4.57%	-	100,000	-	100,000	-	100,000
The 167-1st Public bond	2012.04.20	4.59%	-	100,000	-	100,000	-	100,000

The 167-2nd Public bond	2015.04.20	4.84%	-	100,000	-	100,000	-	100,000
The 168-1st Public bond	2012.06.21	4.43%	-	240,000	-	240,000	-	240,000
The 168-2nd Public bond	2015.06.21	4.66%	-	90,000	-	90,000	-	90,000
The 169th Public bond	2012.04.03	5.01%	-	140,000	-	140,000	-	140,000
The 171st Public bond	2013.02.28	5.41%	-	100,000	-	100,000	-	100,000
The 173-1st Public bond	2013.08.06	6.49%	-	100,000	-	100,000	-	100,000
The 173-2nd Public bond	2018.08.06	6.62%	-	100,000	-	100,000	-	100,000
The 174-1st Public bond	2010.12.19	-	-	-	-	-	-	100,000
The 174-2nd Public bond	2011.12.19	-	-	-	-	130,000	-	130,000
The 175-1st Public bond	2012.02.27	4.80%	-	40,000	-	40,000	-	40,000
The 175-2nd Public bond	2014.02.27	5.47%	-	360,000	-	360,000	-	360,000
The 176-1st Public bond	2012.05.28	4.37%	-	100,000	-	100,000	-	100,000
The 176-2nd Public bond	2014.05.28	5.06%	-	170,000	-	170,000	-	170,000
The 176-3rd Public bond	2016.05.28	5.24%	-	260,000	-	260,000	-	260,000
The 177-1st Public bond	2013.02.09	4.86%	-	240,000	-	240,000	-	-
The 177-2nd Public bond	2015.02.09	5.26%	-	190,000	-	190,000	-	-
The 177-3rd Public bond	2017.02.09	5.38%	-	170,000	-	170,000	-	-
The 179th Public bond	2018.03.29	4.47%	-	260,000	-	-	-	-
The 180-1st Public bond	2016.04.26	4.35%	-	210,000	-	-	-	-
The 180-2nd Public bond	2021.04.26	4.71%	-	380,000	-	-	-	-
The 47-2nd Public bond	2011.07.12	-	-	-	-	70,000	-	70,000
The 48th Public bond	2010.02.15	-	-	-	-	-	-	200,000
The 51-2nd Public bond	2013.06.20	6.41%	-	70,000	-	70,000	-	70,000
The 52-1st Private bond	2011.08.04	-	-	-	-	100,000	-	100,000
The 52-2nd Public bond	2013.08.04	6.64%	-	100,000	-	100,000	-	100,000
The 53-1st Public bond	2010.12.01	-	-	-	-	-	-	20,000
The 53-2nd Public bond	2011.12.01	-	-	-	-	181,213	-	180,023
The 181-1st Public bond	2016.08.26	3.94%	-	260,000	-	-	-	-
The 181-2nd Public bond	2018.08.26	3.99%	-	90,000	-	-	-	-
The 181-3rd Public bond	2021.08.26	4.09%	-	250,000	-	-	-	-
The 182-1st Public bond	2016,10,28	4.11%	-	320,000	-	-	-	-
The182-2nd Public bond	2021,10.28	4.31%	-	100,000	-	-	-	-
The 183-1st Public bond	2016.12.22	3.81%	-	50,000	-	-	-	-
The 183-2nd Public bond	2021.12.22	4.09%	-	90,000	-	-	-	-
The 183-3rd Public bond	2031.12.22	4.27%	-	160,000	-	-	-	-
The 24th Public bond	2010.04.17	-	-	-	-	-	-	10,000
The 25th Public bond	2011.07.24	-	-	-	-	5,000	-	5,000
The 26th Public bond	2013.04.19	5.15%	-	10,000	-	10,000	-	-
The 27th Public bond	2014.07.25	5.04%	-	5,000	-	-	-	-
The 19-2nd Public bond	2010.05.10	-	-	-	-	-	-	10,000
The 10th Public bond	2010.06.18	-	-	-	-	-	-	40,000
The 11st Private bond	2010.12.06	-	-	-	-	-	-	20,000
The 12nd Public bond	2011.05.23	-	-	-	-	-	-	20,000
The 13-2nd Public bond	2010.04.02	-	-	-	-	-	-	10,000
The 14th Public bond	2012.01.08	-	-	-	-	-	-	30,000
The 15th Public bond	2011.10.26	-	-	-	-	-	-	30,000

The 16th Public bond	2012.11.27	-	-	-	-	-	-	30,000
The 1st Private bond	2010.03.16	-	-	-	-	-	-	30,000
The 2nd Private bond	2010.04.16	-	-	-	-	-	-	20,000
The 4th Public bond	2010.05.30	-	-	-	-	-	-	40,000
The 5th Private bond	2010.06.29	-	-	-	-	-	-	20,000
The 6-2nd Public bond	2010.,08.03	-	-	-	-	-	-	30,000
The 7-2nd Public bond	2010.08.31	-	-	-	-	-	-	20,000
The 8th Private bond	2010.09.28	-	-	-	-	-	-	30,000
The 9-2nd Public bond	2010.10.18	-	-	-	-	-	-	20,000
The 11st Public bond	2010.12.27	-	-	-	-	-	-	20,000
The 13-1st Public bond	2010.02.21	-	-	-	-	-	-	30,000
The 13-2nd Public bond	2011.02.21	-	-	-	-	30,000	-	30,000
The 14-1st Public bond	2010.03.28	- -	-	-	-	-	-	10,000
The 14-2nd Public bond	2011.03.28	-	-	-	-	10,000	-	10,000
The 15th Private bond	2010.04.21	-	-	-	-	-	-	20,000
The 16-1st Public bond	2010.01.30	-	-	-	-	-	-	60,000
The 16-2nd Public bond	2011.04.30	-	-	-	-	10,000	-	10,000
The 17-3rd Public bond	2013.05.30	7.14%	-	50,000	-	50,000	-	50,000
The 18-2nd Public bond	2010.06.23	-	-	-	-	-	-	40,000
The 18-3rd Public bond	2011.06.23	-	-	-	-	20,000	-	20,000
The 18-4th Public bond	2013.06.23	7.55%	-	10,000	-	10,000	-	10,000
The 19-2nd Public bond	2010.03.11	-	-	-	-	-	-	10,000
The 19-3rd Public bond	2010.09.11	- -	-	-	-	-	-	20,000
The 19-4st Public bond	2010.09.11	-	-	-	-	-	-	10,000
The 22-1st Public bond	2010.07.23	-	-	-	-	-	-	10,000
The 22-2nd Public bond	2011.01.23	-	-	-	-	35,000	-	35,000
The 22-3rd Public bond	2012.01.23	8.95%	-	25,000	-	25,000	-	25,000
The 23th Public bond	2011.05.29	-	-	-	-	20,000	-	20,000
The 24th Public bond	2012.06.29	6.28%	-	30,000	-	30,000	-	30,000
The 25-1st Public bond	2011.07.30	-	-	-	-	20,000	-	20,000
The 25-2nd Public bond	2012.07.30	6.20%	-	25,000	-	25,000	-	25,000
The 26th Public bond	2012.08.27	6.33%	-	50,000	-	50,000	-	50,000
The 27th Private bond	2012.09.04	6.33%	-	10,000	-	10,000	-	10,000
The 28-1st Public bond	2011.11.12	-	-	-	-	20,000	-	20,000
The 28-2nd Public bond	2012.11.12	6.08%	-	30,000	-	30,000	-	30,000
The 29-1st Public bond	2011.11.30	-	-	-	-	10,000	-	10,000
The 29-2nd Public bond	2012.11.30	6.00%	-	40,000	-	40,000	-	40,000
The 30-1st Public bond	2011.06.23	-	-	-	-	10,000	-	10,000
The 30-2nd Public bond	2011.12.23	-	-	-	-	10,000	-´	10,000
The 30-3rd Public bond	2012.12.23	5.95%	-	10,000	-	10,000	-	10,000
The 31st Public bond	2012.12.31	5.98%	-	10,000	-	10,000	-	10,000
The 32-1st Public bond	2012.01.22	5.65%	-	10,000	-	10,000	-	-
The 32-2nd Public bond	2013.01.22	5.95%	-	50,000	-	50,000	-	-
The 32-3rd Public bond	2015.01.22	6.70%	-	30,000	-	30,000	-	-
The 33rd Public bond	2015.02.11	6.45%	-	50,000	-	50,000	-	-
The 34-1st Public bond	2012.02.26	5.30%	-	30,000	-	30,000	-	-

The 34-2nd Public bond	2013.02.26	5.60%	-	10,000	-	10,000	-	-
The 35-1st Public bond	2012.03.22	4.65%	-	20,000	-	20,000	-	-
The 35-2nd Public bond	2013.03.22	5.05%	-	30,000	-	30,000	-	-
The 36-1st Public bond[2]	2012.04.30	CD(91D)+ 1.09%	-	20,000	-	20,000	-	-
The 36-2nd Public bond	2013.04.30	4.75%	-	30,000	-	30,000	-	-
The 36-3rd Public bond	2015.04.30	5.65%	-	20,000	-	20,000	-	-
The 37-1st Public bond	2011.12.30	-	-	-	-	10,000	-	-
The 37-2nd Public bond	2012.06.30	5.13%	-	10,000	-	10,000	-	-
The 37-3rd Public bond	2013.06.30	5.45%	-	20,000	-	20,000	-	-
The 37-4th Public bond	2014.06.30	5.85%	-	10,000	-	10,000	-	-
The 38-1st Public bond	2012.01.19	4.80%	-	30,000	-	30,000	-	-
The 38-2nd Public bond	2012.07.19	5.08%	-	30,000	-	30,000	-	-
The 38-3rd Public bond	2014.07.19	5.85%	-	10,000	-	10,000	-	-
The 39th Public bond	2013.07.30	5.35%	-	30,000	-	30,000	-	-
The 40-1st Public bond	2012.05.10	4.69%	-	40,000	-	40,000	-	-
The 40-2nd Public bond	2013.08.10	5.33%	-	20,000	-	20,000	-	-
The 40-3rd Public bond	2015.08.10	5.95%	-	20,000	-	20,000	-	-
The 41-1st Public bond	2012.09.17	4.22%	-	30,000	-	30,000	-	-
The 41-2nd Public bond	2013.09.17	4.63%	-	20,000	-	20,000	-	-
The 41-3rd Public bond	2014.09.17	5.10%	-	10,000	-	10,000	-	-
The 42-1st Public bond	2013.11.22	4.62%	-	30,000	-	30,000	-	-
The 42-2nd Public bond	2014.11.22	5.10%	-	20,000	-	20,000	-	-
The 42-3rd Public bond	2015.11.22	5.44%	-	10,000	-	10,000	-	-
The 43-1st Public bond	2014.01.28	5.05%	-	40,000	-	-	-	-
The 43-2nd Public bond	2015.01.28	5.32%	-	10,000	-	-	-	-
The 43-3rd Private bond	2016.01.28	5.75%	-	30,000	-	-	-	-
The 44-1st Public bond	2012.10.28	4.30%	-	30,000	-	-	-	-
The 44-2nd Public bond	2013.04.28	4.53%	-	30,000	-	-	-	-
The 44-3rd Public bond	2013.10.28	4.76%	-	20,000	-	-	-	-
The 45th Public bond	2014.05.18	4.80%	-	30,000	-	-	-	-
The 46-1st Public bond	2013.02.26	4.10%	-	20,000	-	-	-	-
The 46-2nd Public bond	2014.05.26	4.50%	-	40,000	-	-	-	-
The 46-3rd Public bond	2015.05.26	4.71%	-	20,000	-	-	-	-
The 46-4th Public bond	2016.05.26	4.90%	-	20,000	-	-	-	-
The 47th Public bond	2014.06.23	4.50%	-	30,000	-	-	-	-
The 48th Public bond	2016.08.11	4.71%	-	10,000	-	-	-	-
The 49th Public bond [2]	2014.08.23	CD(91D)+ 0.93%	-	20,000	-	-	-	-
The 50-1st Public bond	2013.03.21	4.30%	-	20,000	-	-	-	-
The 50-2nd Public bond	2016.09.21	4.87%	-	5,000	-	-	-	-
The 51-1st Public bond	2014.09.30	4.69%	-	10,000	-	-	-	-
The 51-2nd Public bond	2016.09.30	4.92%	-	20,000	-	-	-	-
The 52-1st Public bond	2013.10.11	4.49%	-	10,000	-	-	-	-
The 52-2nd Public bond[2]	2014.10.11	CD(91D)+ 1,10%	-	10,000	-	-	-	-

The 53rd Public bond	2013.10.17	4.39%	-	20,000	-	-	-	-
The 54th Public bond	2014.10.28	4.64%	-	10,000	-	-	-	-
The 55-1st Public bond	2014.11.16	4.46%	-	40,000	-	-	-	-
The 55-2nd Public bond	2015.11.16	4.56%	-	20,000	-	-	-	-
The 55-3rd Public bond	2016.11.16	4.74%	-	5,000	-	-	-	-
The 56th Public bond	2014.12.13	4,18%	-	35,000	-	-	-	-
Unsecured private convertible bond	2016.01.20	2.00%	-	15,000	-	-	-	-
The 14-2nd unsecured bond	2012.05.22	6.00%	-	50,000	-	-	-	-
The 15th unsecured bond	2012.06.22	5.90%	-	50,000	-	-	-	-
Redeemable convertible preferred stock	2013.12.17	10,27%	-	950	-	-	-	-
The 1st unsecured redeemable convertible preferred stock	2014.12.30	3.00%	-	2,000	-	-	-	-
The 1st private bond	2010.03.24	-	-	-	-	-	-	40,000
The A Redeemable convertible preferred stock	2018.08.14	5.00%	-	1,927	-	-	-	-
The B Redeemable convertible preferred stock	2019.11.24	5.00%	-	634	-	-	-	-
The C Redeemable convertible preferred stock	2021.11.30	5.00%	-	9,987	-	-	-	-
Total				₩ 10,133,767		₩ 8,603,391		₩ 8,913,261
Less: Current portion				(1,657,524)		(2,108,092)		(1,540,000)
Discount on bonds				(31,104)		(27,841)		(36,056)
Conversion right adjustment				(3,026)		-		-
Premium on bonds redemption				1,750		-		-
Net				₩ 8,443,863		₩ 6,467,458		₩ 7,337,205

[1] As of December 31, 2011, the outstanding notes issued by the Company amount to USD 1,300 million with fixed interest rates under Medium Term Note Program ("MTNP") listed in the Singapore Stock Exchange, which allowed issuance of notes of up to USD 2,000 million. However, this MTN Program has not been valid since 2007.

[2] Libor (3M) and CD (91D) are approximately 0.58 % and 3.52 %, respectively, as of December 31, 2011.

Short-term borrowings

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

		2011.12.31			2010.12.31		2010.1.1	
Financial institution	Type	Annual interest rates	Foreign Currency	Korean won	Foreign Currency	Korean won	Foreign currency	Korean won
Shinhan Bank	Commercial papers	3,81%	-	₩ 10,000	-	₩ 45,000		₩ 60,000

	General loan[1]	5.09~CD(91D) +1.44%	-	73,500	-	88,000		20,000
	Usance(EUR)[1] Usance(USD)[1] Usance(JPY)[1]	LIBOR(3M) +1.70%	- USD 1,671 JPY 7,354	2,036	EUR 116 USD 1,842 -	2,274	USD 2,611 JPY 1,456	3,066
Samsung Securities	Commercial papers	3.92%~3.94%	-	20,000	-	10,000	-	12,000
Meritz Securities	Commercial papers	3.85~3.92%	-	25,000	-	20,000	-	15,000
Woori Bank	Commercial papers	-	-	-	-	-	-	10,000
	General loans[1]	CD(91D) +1.61~1.79%	-	18,000	-	5,000	-	27,300
	Usance(USD)[1]	LIBOR(3M) +1.70%	USD 2,192	2,527	USD 1,324	1,508	USD 428	499
Korea Exchange Bank	Commercial papers	3.76%	-	10,000	-	50,000	-	-
	General loans	-	-	-	-	-	-	8,000
	Usance(EUR)[1]	LIBOR(3M) +1.70%	EUR1 ,740	2,600	-	-	-	-
Kookmin Bank	General loans	1.42~4.80%	-	22,397	-	20,890	-	-
Shinhan Investment Corp.	Commercial papers	-	-	-	-	20,000	-	-
Woori Investment & Securities	Commercial papers	3.76%	-	5,000	-	5,000	-	25,000
Dongbu Securities	Commercial papers	-	-	-	-	21,200	-	21,000
KTB Investment & Securities	Commercial papers	3.91~3.95%	-	20,000	-	40,000	-	-
Hanyang Securities	Commercial papers	3.95%	-	10,000	-	25,000	-	-
HI Investment & Securities	Commercial papers	-	-	-	-	20,000	-	-
Standard Chartered Securities	Commercial papers	3.90%	-	10,000	-	10,000	-	-
Eugene Investment & Securities	Commercial papers	-	-	-	-	10,000	-	10,000
Kumho Investment Bank	Commercial papers	-	-	-	-	10,000	-	30,000
Tong Yang Securities	Commercial papers	-	-	-	-	40,000	-	17,000
SK Securities	Commercial papers	3.99~4.00%	-	40,000	-	-	-	-
Shinyoung Securities	Commercial papers	3.76%	-	10,000	-	-	-	-

Korea Development Bank	General loans	16.50%	USD 3,973	4,583	USD 3,995	7,474	-	-
	General loans	5.10~5.51%	-	22,500	-	25,000	-	30,276
Hana Bank	Usance(USD)[1]	LIBOR(3M) +1.70%	USD 2,442	2,816	USD 1,525	1,978	USD 4,202	5,376
	Usance(JPY)	-	-		JPY 17,314		JPY 37,189	
IBK Bank	General loans	4.33%	-	2,342	-	-	-	-
	Usance	-	-	-	-	-	-	50
Korea Investment & Securities	Commercial papers	-	-	-	-	-	-	20,000
Shinhan Investment Corp	Commercial papers	-	-	-	-	-	-	20,000
Daewoo Securities	Commercial papers	-	-	-	-	-	-	20,000
Daegu Bank	General loans	5.55%	-	10,000	-	-	-	-
Others	Others	8.00~8.50%	-	170	-	-	-	14,239
Factoring Receivables	Factoring Receivables	-	-	69,252	-	-	-	-
Total				₩ 392,723		₩ 478,324		₩ 368,806

[1] Libor (3M) and CD (91D) are approximately 0.58% and 3.52%, respectively, as of December 31, 2011.

Long-term borrowings

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

			2011.12.31		2010.12.31		2010.1.1	
Financial institution	**Type**	**Annual interest rates**	**Foreign currency**	**Korean won**	**Foreign currency**	**Korean won**	**Foreign currency**	**Korean won**
Kookmin Bank	Informatization promotion funds[1]	3.80%	-	₩ 5,541	-	₩ 13,126	-	₩ 21,643
	Capital Factoring	-	-	-	-	1,498	-	-
	Loans for operation	5.96%	-	10,000	-	10,000	-	10,000
	General loans	4.88~6.30%	-	30,000	-	20,000	-	40,000
	Facility loans	4.56~4.98%	-	60,000	-	10,000	-	2,250
	Foreign Currency Loans	-	-	-	USD 11,000	12.527	USD 15,000	17,514
	Redeemable convertible preferred stock	1.00%	-	35,196	-	-	-	-
Shinhan Bank	Informatization[1]	3.80%	-	16,383	-	17,812	-	8,575
	Loans for operation	5.88~6.39%	-	14,000	-	14,000	-	7,000
	General loans	5.70%~6.80%	-	47,000	-	35,000	-	-
	Mortgage loan	4.00%	-	517	-	677	-	797

	Facility loans[2]	3.38%~Financing bonds + 1.47%	-	40,878	-	-	-	-
	Commercial papers	-	-	-	-	-	-	10,000
Export-Import Bank of Korea	Inter-Korean Cooperation Fund[1]	2.00%	-	6,415	-	6,415	-	6,415
Bank of Communications	Facility loans	-	-	-	USD 30,000	34,167	USD 30,000	35,028
Woori Bank	General loans[2]	5.98~CD(91D) + 1.39%	-	45,000	-	45,000	-	15,815
	Facility loans	-	-	-	-	164	-	-
Hana Bank	General loans	-	-	-	-	-	-	10,000
Kwangju Bank	General loans	-	-	-	-	10,000	-	10,000
National Federation of FisheriesCooperatives	General loans	-	-	-	-	10,000	-	10,000
NH Bank	Loans for operation	-	-	-	-	-	-	15,000
	General loans	5.80~6.00%	-	50,000	-	50,000	-	28,800
	Facility loans	4.68%	-	50,000	-	-	-	-
Standard Chartered Securities	Commercial papers	-	-	-	-	10,000	-	-
Korea Development	Informatization	-	-	-	-	-	-	1,300
Bank	General loans	-	-	-	USD 83	93	USD 40,000	46,704
	Facility loans	4.49%	-	20,000	-	-	-	-
IBK Bank	Facility loans	4.33%	-	2,000	-	-	-	-
Korea Development Bank	Capital Factoring	1.90%	-	2,577	-	-	-	-
Samsung Securities	Commercial papers	4.02%	-	10,000	-	-	-	-
Dongbu Securities	Commercial papers	4.12%	-	20,000	-	-	-	-
SK Securities	Commercial papers	4.12%	-	10,000	-	-	-	-
KTB Investment & Securities	Commercial papers	4.02%	-	20,000	-	-	-	-
Hanyang securities	Commercial papers	4.02%	-	10,000	-	-	-	-
RCPS(Redeemable Convertible Preferred Stock)	Loans for operation	-	-	-	-	30,000	-	-
Shinhan Investment Corp.	Commercial papers	-	-	-	-	-	-	20,000
Korea Credit Guarantee Fund	Loans for operation	-	-	-	-	-	-	2,893
Others	General loans	-	-	-	-	-	-	1,537
Total				₩ 505,507		₩ 330,479		₩ 321,271
Less: Current portion				(63,256)		(138,031)		(140,931)
Net				₩ 442,251		₩ 192,448		₩ 180,340

[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 CD (91D) and financial bonds(AAA) interest rates are approximately 3.52% and 3.59%, respectively, as of December 31, 2011

Repayment schedule of the Company's bonds payable and borrowings including the portion of current liabilities as of December 31, 2011, is as follows:

(in millions of Korean won)

	Bonds			**Borrowings**			**Total**
	In local currency	**In foreign currency**	**Sub-total**	**In local currency**	**In foreign currency**	**Sub-total**	
2012.01.01~ 2012.12.31	₩ 1,300,000	₩ 357,523	₩ 1,657,523	₩ 441,418	₩ 14,562	₩ 455,980	₩ 2,113,503
2013.01.01~ 2013.12.31	1,340,950	981,126	2,322,076	201,660	-	201,660	2,523,736
2014.01.01~ 2014.12.31	1,162,000	807,310	1,969,310	107,051	-	107,051	2,076,361
2015.01.01~ 2015.12.31	560,000	461,320	1,021,320	92,648	-	92,648	1,113,968
Thereafter	2,817,548	345,990	3,163,538	40,891	-	40,891	3,204,429
	₩ 7,180,498	₩ 2,953,269	₩10,133,767	₩ 883,668	₩ 14,562	₩ 898,230	₩11,031,997

Carrying value and fair value of the Company's bonds payable and borrowings as of December 31, 2011 and 2010, and January 1, 2010 are as follows:

(in millions of Korean won)

	2011.12.31		**2010.12.31**		**2010.1.1**	
Type	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Bonds payable	₩ 10,100,322	₩ 10,253,221	₩ 8,573,561	₩ 8,876,175	₩ 8,876,623	₩9,092,948
Short-term borrowings	392,723	392,723	478,324	478,324	368,806	368,806
Long-term borrowings (Including current borrowings)	505,507	481,086	330,479	409,871	321,271	293,625
Total	₩ 10,998,552	₩ 11,127,030	₩ 9,382,364	₩ 9,764,370	₩ 9,566,700	₩ 9,755,379

The fair value of short-term borrowings equals its carrying value because the discounting effect is immaterial.

The fair values of bonds payable and long-term borrowings are calculated by discounting the expected future cash flows at weighted average borrowing rate. The weighted average borrowing rate is approximately 4.64% as of December 31, 2011 (2010.12.31: 4.83%, 2010.1.1: 5.12%).

18. Provisions

The changes in provisions during the years ended December 31, 2011 and 2010, are as follows:

	2011			
(in millions of Korean won)	**Litigation**	**Asset retirement obligation**	**Others**	**Total**
Balance at 2011.1.1	₩ 23,560	₩ 109,399	₩ 35,918	₩ 168,877
Increase	5,377	5,444	104,940	115,761
Usage	(2,499)	(2,962)	(11,822)	(17,283)
Reversal	(936)	(3,285)	(1,128)	(5,349)
Changes in scope of consolidation	3,413	-	-	3,413
Others	-	55	76	131
Balance at 2011.12.31	₩ 28,915	₩ 108,651	₩ 127,984	₩ 265,550
Current portion	25,502	19	97,064	122,585
Non-current portion	3,413	108,632	30,920	142,965

	2010			
(in millions of Korean won)	**Litigation**	**Asset retirement obligation**	**Others**	**Total**
Balance at 2010.1.1	₩ 17,011	₩ 102,863	₩ 12,031	₩ 131,905
Increase	9,630	20,552	43,048	73,230
Usage	(2,117)	(6,977)	(18,651)	(27,745)
Reversal	(964)	(4,925)	(7,487)	(13,376)
Others	-	(2,114)	6,977	4,863
Balance at 2010.12.31	₩ 23,560	₩ 109,399	₩ 35,918	₩ 168,877
Current portion	23,560	-	34,917	58,477
Non-current portion	-	109,399	1,001	110,400

19. Retirement Benefit Obligation

The amounts recognized in the statements of financial position as of December 31, 2011 and 2010, and January 1, 2010, are determined as follows:

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Present value of defined benefit obligations	₩ 1,462,720	₩ 1,129,912	₩ 1,235,683
Fair value of plan assets	(1,037,008)	(865,934)	(1,149,657)
Liabilities	₩ 425,712	₩ 263,978	₩ 86,026

The changes in the defined benefit obligations for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Beginning	₩ 1,129,912	₩ 1,235,683
Current service cost	174,089	145,119
Interest expense	53,257	68,140
Past service cost	26	(38,416)
Benefit paid	(81,284)	(53,230)
Costs on settlements	-	29,966
Changes due to settlements of plan	-	(429,751)
Actuarial losses	144,856	174,499
Changes in scope of consolidation	41,864	(2,098)
Ending	₩ 1,462,720	₩ 1,129,912

Changes in the fair value of plan assets for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Beginning	₩ 865,934	₩ 1,149,657
Expected return on plan assets	41,146	64,047
Employer contributions	131,421	9,772
Plan participants' contributions	18,571	689
Benefits paid	(44,396)	(31,927)
Changes due to settlements of plan	-	(313,872)
Changes in scope of consolidation	22,190	(2,217)
Actuarial gains (losses)	2,142	(10,215)
Ending	₩ 1,037,008	₩ 865,934

Amounts recognized in the statement of income for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Current service cost	₩ 174,089	₩ 145,119
Interest cost	53,257	68,140
Expected return on plan assets	(41,146)	(64,047)
Past service cost	26	(38,416)
Costs on settlements	-	29,966
Transfer out	(4,054)	(8,609)
Total expenses	₩ 182,172	₩ 132,153

Principal actuarial assumptions used are as follows:

	2011.12.31	2010.12.31	2010.1.1
Discount rate	4.00% ~ 4.80%	4.00% ~ 5.70%	5.07% ~ 5.90%
Expected rate of return	4.10% ~ 5.80%	3.30% ~ 5.80%	3.00% ~ 6.60%
Future salary increase	2.00% ~ 9.30%	2.00% ~ 6.90%	1.50% ~ 6.00%

Details of plan assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Pension deposit	₩ 1,009,754	₩ -	₩ -
Severance insurance deposits	27,254	865,934	₩ 1,149,657
Total	₩ 1,037,008	₩ 865,934	₩ 1,149,657

Actual return on plan assets for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31
Actual return on plan assets	₩ 43,288	₩ 53,832

Details of adjustments for the differences between initial assumptions and actual figures as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Present value of the defined benefit obligations	₩ 1,462,720	₩ 1,129,912	₩ 1,235,683
Fair value of plan assets	(1,037,008)	(865,934)	(1,149,657)
Deficit in the plan	425,712	263,978	86,026
Experience adjustments on defined benefit liabilities	(2,900)	(60,691)	-
Experience adjustments on plan assets	2,142	(10,215)	-

20. Commitments and Contingencies

As of December 31, 2011, major commitments with local financial institutions are as follows:

(in millions of Korean won and thousands of foreign currencies)	**Financial institution**	**Currency**	**Limit**	**Used amount**
Bank overdraft	Kookmin Bank and others	KRW	1,659,000	-
Commercial papers factoring	Korea Exchange Bank	KRW	277,000	-
Loan on information and communications fund	Shinhan Bank and others	KRW	39,138	21,924
Collateralized loan on accounts receivable-trade	Kookmin Bank and others	KRW	618,000	91,384
Collection for foreign currency denominated checks	Korea Exchange Bank	USD	1,000	-
Plus electronic bill	Industrial Bank of Korea	KRW	50,000	-
Comprehensive credit line	Korea Exchange Bank	KRW	5,000	-
Others	Kookmin Bank and others	KRW	130,000	2,000
		USD	83,500	14,439
Total		KRW	2,778,138	115,308
		USD	84,500	14,439

As of December 31, 2011, guarantees received from financial institutions are as follows:

(in millions of Korean won and thousands of foreign currencies)	**Financial institution**	**Currency**	**Limit**	**Used amount**
Performance guarantee for construction	Seoul Guarantee Insurance	KRW	36,498	-
Performance guarantee	Export-Import Bank of Korea	USD	3,835	3,835
		SAR[1]	735	735
		DZD[2]	25,863	25,863
	Seoul Guarantee Insurance	KRW	12,861	-
	Korea Software Financial Cooperative	KRW	184,094	184,094
Bid guarantee	Korea Software Financial Cooperative	KRW	10,202	10,202
Advances received guarantee	Export-Import Bank of Korea	USD	2,925	2,925
		DZD	77,589	77,589
Prepayment guarantee	Korea Software Financial Cooperative	KRW	116,895	116,895
Warranties guarantee	Export-Import Bank of Korea	USD	971	971
	Korea Software Financial Cooperative	KRW	22,260	22,260

Currency guarantee	Korea exchange Bank	KRW	23,600	1,930
	Woori Bank	KRW	50,000	3,887
	Shinhan Bank	KRW	44,550	26,100
	Korea Software Financial Cooperative	KRW	5,770	5,770
	Export-Import Bank of Korea	KRW	8,369	-
Foreign currency guarantee	Kookmin Bank	USD	6,866	4,039
	Shinhan Bank	USD	9,877	867
	Korea exchange Bank	USD	45,000	41,255
	HSBC	USD	40,000	40,000
Guarantee deposit	Seoul Guarantee Insurance	KRW	31,013	-
Guarantee for import letters of credit	Korea Exchange Bank	USD	5,000	-
	Total	KRW	546,112	371,138
		USD	114,474	93,892
		SAR	735	735
		DZD	103,452	103,452

[1] Saudi Riyal.
[2] Algerian Dinar.

Details of collaterals that KT Capital Co.,Ltd., a subsidiary of KT Corporation, is provided with by third parties as of December 31, 2011, are as follows:

(in millions of Korean won)	**Details**	**Amounts**
Credits	Movables ,real-estate, financial collateral	₩ 984,078

As of December 31, 2011, guarantees provided by the Company for a third party, are as follows:

(in millions of Korean won)	**Creditor**	**Limit**
Eun-haeng 1-area urban environment Improving project union	Kookmin Bank	₩ 2,600
Yeongdeungpo apartment-type factory People who have the right of ownership	Woori Bank	13,000
Samsung Engineering Co.and others	Seoul Guarantee Insurance	911
Other Project Financing[1]	Kookmin Bank and others	41,769

[1] As of December 31, 2011, guarantee liabilities of ₩ 2,839 million (2010.12.31: ₩ 2,919 million) in relation to guarantees for PF loan are recorded as ‘other financial liabilities’ in the statement of financial position.

As of December 31, 2011, the Company is a defendant in 142 lawsuits, with an aggregate amount of ₩ 37,065million. As of December 31, 2011, litigation provisions of ₩ 28,915 million are recorded as liabilities for potential loss. The final outcome of these cases cannot yet be predicted.

21. Lease

The Company's non-cancellable lease arrangements are as follows:

The Company as the Lessee

Finance Lease

Details of finance lease assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Acquisition costs	₩ 166,181	₩ 137,182	₩ 35,233
Accumulated depreciation	(67,250)	(83,348)	(30,382)
Net balance	₩ 98,931	₩ 53,834	4,851

The related depreciation amounted to ₩ 26,024 million (2010: ₩ 28,319 million) for the year ended December 31, 2011.

Details of future minimum lease payments as of December 31, 2011 and 2010, and January 1, 2010, under finance lease contracts are summarized below:

(in millions of Korean won)	**2011.12.31**		**2010.12.31**		**2010.1.1**	
Type	**Minimum lease payments**	**Present Values**	**Minimum lease payments**	**Present Values**	**Minimum lease payments**	**Present Values**
Within one year	₩ 66,635	₩ 46,155	₩ 46,144	₩ 33,089	₩ 6,519	₩ 6,224
From one year to five years	116,627	90,042	74,118	60,767	1,348	1,329
Total	₩ 183,262	₩ 136,197	₩ 120,262	₩ 93,856	₩ 7,867	₩ 7,553

Operating Lease

Details of future minimum lease payments as of December 31, 2011 and 2010, and January 1, 2010, under operating lease contracts are summarized below:

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Within one year	₩ 52,053	₩ 23,971	₩ 19,923
From one year to five years	158,560	17,915	7,734
Thereafter	217,115	-	-
Total	₩ 427,728	₩ 41,886	₩ 27,657

Operating lease expenses incurred for the years ended December 31, 2011 and 2010, amounted to ₩ 41,499 million and ₩ 23,680 million, respectively.

The Company as the Lessor

Finance Lease

Details of finance lease assets as of December 31, 2011, are as follows:

(in millions of Korean won)	Minimum lease payments	Unguaranteed residual value	Gross investment in the lease	Unaccrued interest	Net investment in the lease
Within one year	₩ 290,511	₩ -	₩ 290,511	₩ (39,066)	₩ 251,445
From one year to five years	514,243	-	514,243	(42,951)	471,292
Thereafter	25,960	-	25,960	(3,171)	22,789
Total	₩ 830,714	₩ -	₩ 830,714	₩ (85,188)	₩ 745,526

Details of finance lease assets as of December 31, 2010, are as follows:

(in millions of Korean won)	Minimum lease payments	Unguaranteed residual value	Gross investment in the lease	Unaccrued interest	Net investment in the lease
Within one year	₩ 240,988	₩ -	₩ 240,988	₩ (41,293)	₩ 199,695
From one year to five years	480,037	-	480,037	(74,407)	405,630
Thereafter	10,248	-	10,248	(1,577)	8,671
Total	₩ 731,273	₩ -	₩ 731,273	₩ (117,277)	₩ 613,996

Details of finance lease assets as of January 1, 2010, are as follows

(in millions of Korean won)	Minimum lease payments	Unguaranteed residual value	Gross investment in the lease	Unaccrued interest	Net investment in the lease
Within one year	₩ 228,346	₩ 114	₩ 228,460	₩ (25,466)	₩ 202,994
From one year to five years	358,948	5,802	364,750	(39,774)	324,976
Thereafter	8,667	-	8,667	(413)	8,254
Total	₩ 595,961	₩ 5,916	₩ 601,877	₩ (65,653)	₩ 536,224

Details of bad debts allowance for finance lease receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Within one year	₩ (2,742)	₩ (4,924)	₩ (4,007)
Over five years	-	-	(1,306)
Thereafter	(6,124)	(11,733)	(8,146)
Total	₩ (8,866)	₩ (16,657)	₩ (13,459)

Operating Lease

Details of operating lease assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Acquisition costs	₩ 24,866	₩ 22,761	₩ 228,286
Accumulated depreciation	(6,614)	(11,075)	(116,068)
Net balance	₩ 18,252	₩ 11,686	₩ 112,218

Details of future minimum lease payments as of December 31, 2011 and 2010, and January 1, 2010, under operating lease contracts are summarized below:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Within one year	₩ 7,381	₩ 5,226	₩ 7,339
From one year to five years	7,153	2,203	3,615
Total	₩ 14,534	₩ 7,429	₩ 10,954

22. Capital Stock

As of December 31, 2011 and 2010, and January 1, 2010, the Company's number of authorized shares is one billion.

	2011.12.31			2010.12.31			2010.1.1		
	Number of issued shares	Par value per share *(in Korean won)*	Common stock *(in millions of Korean won)*	Number of outstanding shares	Par value per share *(in Korean won)*	Common stock *(in millions of Korean won)*	Number of outstanding shares	Par value per share *(in 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	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.

23. Retained Earnings

Details of retained earnings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Legal reserve [1]	₩ 782,249	₩ 780,499	₩ 780,499
Voluntary reserves	4,911,362	4,651,362	4,758,012
Unappropriated retained earnings	4,526,022	4,034,307	4,154,526
Total	₩ 10,219,633	₩ 9,466,168	₩ 9,693,037

[1] 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.

24. Other Components of Equity

As of December 31, 2011 and 2010, and January 1, 2010, the Company's other components of equity are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Treasury stock	₩ (953,608)	₩ (955,083)	₩ (956,159)
Loss on disposal of treasury stock	-	(295)	(890,650)
Share-based payments	7,455	7,669	3,619
Others [1]	(551,136)	(310,584)	(310,957)
Total	₩ (1,497,289)	₩ (1,258,293)	₩ (2,154,147)

[1] Gain (loss) from transactions with non-controlling shareholders and changes in interest in subsidiaries are included.

As of December 31, 2011 and 2010, and January 1, 2010, the details of treasury stock are as follows:

	2011.12.31	2010.12.31	2010.1.1
Number of shares	17,897,147	17,895,964	17,915,340
Amounts *(In millions of Korean won)*	₩ 953,608	₩ 955,083	₩ 965,159

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

25. Share-Based Payments

The Controlling Company has granted stock options to its executive officers and directors as of December 31, 2011, 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	Executives and former outside directors
Number of basic allocated shares upon grant	50,800 shares	92,637 shares
Number of additional shares related to business performance upon grant	20,000 shares	-
Number of shares expected to be exercised upon grant	60,792 shares	92,637 shares
Number of settled or forfeited shares	10,800 shares	46,888 shares
Number of expired shares as of December 31, 2011	-	-
Number of basic allocated shares as of December 31, 2011	40,000 shares	45,749 shares
Number of additional shares related to business performance as of December 31, 2011	3,153 shares	-
Number of shares expected to be exercised	43,153 shares	45,749 shares
Fair value per share (in Korean won)	₩ 12,322	₩ 4,328
Total compensation cost (in millions of Korean won)	₩ 531 million	₩ 343 million
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 Controlling 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 changes of the number of stock options and a weighted-average exercise prices, as of December 31, 2011 and 2010 are as follows:

	2011				
	Beginning	**Expired**	**Exercised[1]**	**Ending**	**Number of shares exercisable**
4th grant	43,153	-	-	43,153	43,153
KTF-4th	45,749	-	-	45,749	45,749
Total	88,902	-	-	88,902	88,902
Weighted-average exercise prices (in Korean won)	48,468	-	-	48,468	

	2010				
	Beginning	**Expired**	**Exercised[1]**	**Ending**	**Number of shares exercisable**
2nd grant	3,000	3,000	-	-	-
4th grant	43,153	-	-	43,153	43,153
KTF-2nd	20,570	20,570	-	-	-
KTF-3rd	219,909	35,811	184,098	-	-
KTF-4th	79,200	-	33,451	45,749	45,749
Total	365,832	59,381	217,549	88,902	88,902
Weighted-average exercise prices (in Korean won)	44,754	49,794	41,861	48,468	

[1] Weighted - average price of the common stock at the time of exercise.

The Controlling 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 others on the date of the merger.

Other share-based compensation

The Controlling Company provided stock grants subject to both the service period and business performance goals. The details of stocks grants as of December 31, 2011 are as follows:

	5th grant
Grant date	2011.4.29
Grantee	CEOs, inside directors, outside directors, executives
Estimated number of shares granted at grant date	185,338 shares
Estimated number of shares granted as of December 31, 2011	185,338 shares
Vesting conditions	Service condition: 1 year
	Non-market performance condition: achievement of performance
Fair value per option (in Korean won)	₩ 38,500
Total compensation costs (in Korean won)	₩ 7,136 million
Estimated exercise date (exercise date)	During 2012

Valuation method	Fair value method

Changes of the number of other share-based payments, as of December 31, 2011 and 2010 are as follows:

	2011					
	Beginning	Grant	Expired	Exercised[1]	Ending	Number of shares exercisable
4th grant	142,436	-	11,924	130,512	-	-
5th grant	-	185,338	-	-	185,338	-
Total	142,436	185,338	11,924	130,512	185,338	-

	2010					
	Beginning	Grant	Expired	Exercised[1]	Ending	Number of shares exercisable
2nd grant	13,345	-	13,345	-	-	-
3rd grant	29,055	-	-	29,055	-	-
4th grant	-	142,436	-	-	142,436	-
KTF-2nd	11,790	-	11,790	-	-	-
Total	54,190	142,436	25,135	29,055	142,436	-

[1] The weighted average price of common stock at the time of exercise during 2011 was ₩ 38,500(2010: ₩ 47,700).

26. Operating Revenues

Operating revenues for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011		2010	
Sale of goods	₩	4,378,852	₩	3,899,128
Sales of services		16,831,158		16,110,222
Others		780,041		316,925
Operating revenues	₩	21,990,051	₩	20,326,275

27. Operating Expenses

Operating expenses for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Salaries and wages	₩ 2,856,020	₩ 2,623,098
Depreciation	2,646,503	2,864,356
Amortization of intangible assets	312,979	244,087
Commissions	1,449,446	1,291,873
Interconnection charges	1,115,792	1,225,581
Purchase of handsets	4,249,972	3,984,934
Changes of inventories	(35,890)	(54,761)
Sales commission	1,866,331	1,910,415
Utilities	262,930	250,347
Taxes and Dues	219,352	230,424
Rent	324,324	284,257
Advertising expenses	184,544	181,644
Research and development expenses	175,917	305,658
Others	4,388,110	2,976,491
Total	₩ 20,016,330	₩ 18,318,404

Details of employee benefits for the years ended December 31, 2011 and 2010 are as follows:

(in millions of Korean won)	2011	2010
Short-term employee benefits	₩ 2,601,675	₩ 2,458,527
Post-employment benefits	202,862	132,153
Share-based payment (Note 25)	6,726	6,794
Termination benefits	44,757	25,624
Total	₩ 2,856,020	₩ 2,623,098

28. Classification of Operating Income

(1) Major items included in calculation of operating income

The Company’s operating income is calculated by deducting operating expenses such as salaries and amortization cost and others, from operating revenue, which includes sales of services and others. Major items and related amounts are included in operating revenue and expenses are described in Notes 26 and 27.

(2) Differences between Korean IFRS and Korean GAAP in operating income

In accordance with Korean GAAP, gain or loss on disposal of property and equipment and intangible assets, and others are excluded from operating revenue and expenses. But under Korean IFRS, those are included. Therefore, the differences between Korean IFRS and Korean GAAP in operating profit are the amounts of gain or loss on disposal of property and equipment and intangible assets and others. Major items and related amounts are as follows:

(in millions of Korean won)	**2011**		**2010**	
Operating profit under Korean IFRS	₩	1,973,721	₩	2,007,871
Adjustments:				
Gain or loss on disposal of property and equipment		(226,571)		62,425
Gain or loss on disposal of intangible assets		(1,528)		18,049
Gain or loss on disposal of subsidiaries, associates and joint ventures		(190,632)		(3,885)
Others		149,392		74,111
Total adjustments		(269,339)		150,700
Operating profit under K-GAAP[1]	₩	1,973,721	₩	2,158,571

[1]Above information only reflects the difference in classification and the measurement is in accordance with Korean IFRS. Above operating profits for the year ended December 31, 2010, are not equal the reported operating profits under Korean GAAP.

29. Financial Income and Expenses

Details of financial income for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**		**2010**	
Interest income	₩	151,288	₩	97,440
Foreign currency transaction gain		44,217		21,963
Foreign currency translation gain		6,097		64,983
Gain on settlement of derivatives		389		197
Gain on valuation of derivatives		63,959		54,299
Others		1,469		497
Total	₩	267,419	₩	239,379

Details of financial expenses for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Interest expenses	₩ 481,415	₩ 489,925
Foreign currency transaction loss	34,862	25,153
Foreign currency translation loss	85,274	31,644
Loss on settlement of derivatives	27,055	1,595
Loss on valuation of derivatives	9,192	47,496
Others	2,418	2,850
Total	₩ 640,216	₩ 598,663

30. Deferred Income Tax and Income Tax Expense

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2011 and 2010, and January 1, 2010 are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Deferred tax assets			
Deferred tax assets to be recovered after more than 12 months	₩ 237,586	₩ 273,371	₩ 253,806
Deferred tax assets to be recovered within 12 months	787,314	592,330	696,865
	₩ 1,024,900	₩ 865,701	₩ 950,671
Deferred tax liabilities			
Deferred tax liability to be recovered after more than 12 months	(846)	(961)	(6,040)
Deferred tax liability to be recovered within 12 months	(618,635)	(303,860)	(376,095)
	₩ (619,481)	₩ (304,821)	₩ (382,135)
Deferred tax assets (liabilities), net	₩ 405,419	₩ 560,880	₩ 568,536

The gross movements on the deferred income tax account for the years ended December 31, 2011 and 2010 are calculated as follows:

(in millions of Korean won)	2011	2010
Beginning	₩ 560,880	₩ 568,536
Charged/(credited) to the income statement	(142,012)	(53,014)
Charged/(credited) to other comprehensive income	36,233	48,358

Changes in scope of consolidation	(49,682)	(3,000)
Ending	₩ 405,419	₩ 560,880

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(in millions of Korean won)	2011				
	Beginning	**Income statement**	**Other comprehensive income**	**Changes in scope of consolidation**	**Ending**
Deferred tax liabilities					
Derivative financial assets	₩ (30,854)	₩ (6,178)	₩ (829)	₩ -	₩ (37,861)
Available-for-sale financial assets	12,987	(27,472)	(648)	2,188	(12,945)
Investment in joint venture and associates	(46,995)	46,083	1,076	(364)	(200)
Depreciation	(6,229)	(73,284)	-	(2,995)	(82,508)
Deposits for severance benefits	(189,993)	(83,396)	502	1,654	(271,233)
Accrued income	(702)	(1,105)	-	(29)	(1,836)
Reserve for technology and human resource development	-	(63,491)	-	-	(63,491)
Others	(30,048)	(60,717)	-	(58,642)	(149,407)
Subtotal	₩ (291,834)	₩ (269,560)	₩ 101	₩ (58,188)	₩ (619,481)
Deferred tax assets					
Allowance for Doubtful Accounts	₩ 128,040	₩ (20,556)	₩ 106	₩ 4,613	₩ 112,203
Inventory valuation	680	(508)	-	422	594
Contribution for construction	31,188	(1,887)	-	-	29,301
Accrued expenses	28,489	(4,405)	-	(1)	24,083
Provisions	18,249	36,248	-	741	55,238
Defined benefit liabilities	160,564	58,518	37,418	748	257,248
Withholding of facilities expenses	9,283	106	-	-	9,389
Accrued payroll expenses	49,755	(21,085)	-	-	28,670
Deduction of instalment receivables	72,171	6,709	-	-	78,880
Present value discount	23,967	10,208	-	1	34,176
Assets retirement obligation	15,285	998	-	-	16,283
Gain or loss foreign currency translation	81,111	16,524	-	(3)	97,632
Deferred revenue	53,812	(2,629)	-	-	51,183
Real-estate sales	2,940	3,516	-	-	6,456
Tax credit carryforwards	89,386	(8,532)	-	-	80,854
Others	87,794	54,323	(1,392)	1,985	142,710
Subtotal	₩ 852,714	₩ 127,548	₩ 36,132	₩ 8,506	₩ 1,024,900
Net balance	₩ 560,880	₩ (142,012)	₩ 36,233	₩ (49,682)	₩ 405,419

(in millions of Korean won) **2010**

	Beginning	Income statement	Other comprehensive income	Changes in scope of consolidation	Ending
Deferred tax liabilities					
Derivative financial assets	₩ (39,273)	₩ (1,759)	₩ 10,178	₩ -	₩ (30,854)
Investment in joint venture and associates	(48,596)	1,406	195	-	(46,995)
Depreciation	(39,642)	33,413	-	-	(6,229)
Deposits for severance benefits	(244,854)	54,861	-	-	(189,993)
Accrued income	(1,551)	849	-	-	(702)
Others	(5,625)	(24,423)	-	-	(30,048)
Subtotal	₩ (379,541)	₩ 64,347	₩ 10,373	₩ -	₩ (304,821)
Deferred tax assets					
Allowance for doubtful accounts	₩ 115,151	₩ 12,889	₩ -	₩ -	₩ 128,040
Inventory valuation	10,494	(9,814)	-	-	680
Available-for-sale financial assets	12,147	892	(52)	-	12,987
Contribution to construction	39,296	(8,108)	-	-	31,188
Accrued expenses	30,176	(1,687)	-	-	28,489
Provisions	12,051	6,198	-	-	18,249
Defined benefit liabilities	194,921	(72,790)	38,433	-	160,564
Withholdings for facilities expenses	9,609	(326)	-	-	9,283
Accrued payroll expenses	37,410	12,345	-	-	49,755
Deduction of instalment receivables	34,603	37,568	-	-	72,171
Present value discount	8,922	15,045	-	-	23,967
Assets retirement obligation	13,657	1,628	-	-	15,285
Gain or loss foreign currency translation	86,843	(5,732)	-	-	81,111
Deferred revenue	59,560	(5,748)	-	-	53,812
Real-estate sales	48,327	(45,387)	-	-	2,940
Tax credit carryforwards	169,615	(80,229)	-	-	89,386
Others	65,295	25,895	(396)	(3,000)	87,794
Subtotal	₩ 948,077	₩ (117,361)	₩ 37,985	₩ (3,000)	₩ 865,701
Net balance	₩ 568,536	₩ (53,014)	₩ 48,358	₩ (3,000)	₩ 560,880

The tax impacts directly to equity as of December 31, 2011 and 2010, and January 1, 2010 are as follows:

	2011.12.31			2010.12.31			2010.1.1		
(in millions of Korean won)	Before recognition	Tax effect	After recognition	Before recognition	Tax effect	After recognition	Before recognition	Tax effect	After recognition
Available-for-sale valuation gain (loss)	₩ 85,974	₩ (18,034)	₩ 67,940	₩ 10,874	₩ (2,392)	₩ 8,482	₩ 8,651	₩ (1,907)	₩ 6,744
Hedge instruments valuation gain (loss)	(30,629)	368	(30,261)	(59,142)	710	(58,432)	(23,559)	280	(23,279)
Actuarial gain (loss)	(326,658)	71,865	(254,793)	(188,113)	41,385	(146,728)	-	-	-

Shares of other comprehensive gain(loss) of joint ventures and associates	(2,458)	541	(1,917)	3,553	(782)	2,771	503	(111)	392
Shares of actuarial gain (loss) of Joint ventures and associates	(2,764)	608	(2,156)	(305)	67	(238)	-	-	-
Others	(317,577)	157	(317,420)	(318,898)	81	(318,817)	(318,483)	47	(318,436)
Total	₩ (594,112)	₩ 55,505	₩ (538,607)	₩ (552,031)	₩ 39,069	₩ (512,962)	₩ (332,888)	₩ (1,691)	₩ (334,579)

Details of income tax expenses for the years ended December 31, 2011 and 2010 are calculated as follows:

(in millions of Korean won)	**2011**	**2010**
Current income tax expenses	₩ 229,861	₩ 352,471
Impact of change in temporary difference	160,126	53,014
Impact of change in tax rate[1]	(18,114)	-
Total income tax expense	₩ 371,873	₩ 405,485
Income tax expense from continued operations	316,735	396,369
Income tax expense for discontinued operations	55,138	9,116

[1] During the year, as a result of the change in the Korean corporation tax rate from 22% to 24.2% that was enacted on December 31, 2011, the relevant deferred tax balances have been re-measured. Deferred tax expected to be realized in the year to December 31, 2011, has been measured using the effective rate 24.2% applicable for the period.

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

(in millions of Korean won)	**2011**	**2010**
Profit before continuing operations before income tax expenses	₩ 1,597,886	₩ 1,681,273
Expected tax expense at statutory tax rate	386,688	406,868
Tax effects of		
Income not subject to tax	(394,462)	(6,199)
Expenses not deductible for tax purposes	396,673	36,466
Tax credit carry forwards and deductions	(169,057)	(87,666)
Changes in unrealizable deferred tax assets	10,188	957
Deferred tax effects due to changes in tax rates	85,146	25,362

and others		
Others	1,559	20,581
Income tax expenses for continuing operations	₩ 316,735	₩ 396,369
Average effective tax rate	19.8%	23.6%

31. Earnings Per Share

Calculation of earnings per share for the years ended December 31, 2011 and 2010, are as follows:

1) Basic earnings per share from continuing operations

Basic earnings per share from continuing operations is calculated by dividing the profit from continuing operations attributable to equity holders of the Company by the weighted average number of common stocks outstanding during the period, excluding common stocks purchased by the Company and held as treasury stock (Note 24).

Basic earnings per share from continuing operations for the years ended December 31, 2011 and 2010, are calculated as follows:

	2011	2010
Profit from continuing operations attributable to common stock(in millions of Korean won)	₩ 1,276,512	₩ 1,273,191
Weighted average number of common stock outstanding	243,268,052	243,207,149
Basic earnings per share from continuing operations (in Korean won)	₩ 5,247	₩ 5,235

2) Basic earnings per share from discontinued operations

Basic earnings per share from discontinued operations is calculated by dividing the profit from discontinued operations attributable to equity holders of the Company by the weighted average number of common stocks outstanding during the period, excluding common stocks purchased by the Company and held as treasury stock (Note 24).

Basic earnings per share from discontinued operations for the years ended December 31, 2011 and 2010, are calculated as follows:

	2011	2010
Profit from discontinued operations attributable to common stock(in millions of Korean won)	₩ 170,039	₩ 22,650
Weighted average number of		

	2011	2010
common stock outstanding	243,268,052	243,207,149
Basic earnings per share from discontinued operations (in Korean won)	₩ 699	₩ 93

3) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common stocks outstanding during the year, excluding common stocks purchased by the Company and held as treasury stock (Note 24).

Basic earnings per share for the years ended December 31, 2011 and 2010, are calculated as follows:

	2011	2010
Net income attributable to common stock(in millions of Korean won)	₩ 1,446,551	₩ 1,295,841
Weighted average number of common stock outstanding	243,268,052	243,207,149
Basic earnings per share (in Korean won)	₩ 5,946	₩ 5,328

4) Diluted earnings per share from continuing operations

Diluted earnings per share from continuing operations is calculated by adjusting the weighted average number of common stocks outstanding to assume conversion of all dilutive potential common stocks. The Company has dilutive potential common stocks from stock options.

Diluted earnings per share from continuing operations for the years ended December 31, 2011 and 2010, are calculated as follows:

	2011	2010
Profit from continuing operations attributable to common stock*(in millions of Korean won)*	₩ 1,276,512	₩ 1,273,191
Adjusted profit from continuing operations attributable to common stock*(in millions of Korean won)*	1,276,512	1,273,191
Number of dilutive potential common shares outstanding	32,960	18,081
Weighted-average number of common shares outstanding and dilutive common shares	243,301,012	243,225,230

Diluted earnings per share from continuing operations*(in Korean won)*	₩	5,247	₩	5,235

Diluted earnings per share from continuing operations is calculated by dividing adjusted profit from continuing operations attributable to equity holders of the Company by the sum of the number of common stocks and dilutive potential common stocks. Certain stock options and other share-based payments have no dilutive effect and are excluded from the calculation of diluted earnings per share from continuing operations.

5) Diluted earnings per share from discontinued operations

Diluted earnings per share from discontinued operations is calculated by adjusting the weighted average number of common stocks outstanding to assume conversion of all dilutive potential common stocks. The Company has dilutive potential common stocks from stock options.

Diluted earnings per share from discontinued operations for the years ended December 31, 2011 and 2010, are calculated as follows:

	2011		**2010**	
Profit from discontinued operations attributable to common stock*(in millions of Korean won)*	₩	170,039	₩	22,650
Adjusted profit from discontinued operations attributable to common stock*(in millions of Korean won)*		170,039		22,650
Number of dilutive potential common shares outstanding		32,960		18,081
Weighted-average number of common shares outstanding and dilutive common shares		243,301,012		243,225,230
Diluted earnings per share from discontinued operations*(in Korean won)*	₩	699	₩	93

Diluted earnings per share from discontinued operations is calculated by dividing adjusted profit from discontinued operations attributable to equity holders of the Company by the sum of the number of common stocks and dilutive potential common stocks. Certain stock options and other share-based payments have no dilutive effect and are excluded from the calculation of diluted earnings per share from discontinued operations.

6) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of common stocks outstanding to assume conversion of all dilutive potential common stocks. The Company has dilutive potential common stocks from stock options.

Diluted earnings per share for the years ended December 31, 2011 and 2010, are calculated as follows:

	2011		2010	
Net income attributable to common stock(in millions of Korean won)	₩	1,446,551	₩	1,295,841
Adjusted net income attributable to common stock (in millions of Korean won)		1,446,551		1,295,841
Number of dilutive potential common shares outstanding		32,960		18,081
Weighted-average number of common shares outstanding and dilutive common shares		243,301,012		243,225,230
Diluted earnings per share (in Korean won)	₩	5,946	₩	5,328

Diluted earnings per share is calculated by dividing adjusted net income attributable to equity holders of the Company by the sum of the number of common stocks and dilutive potential common stocks. Certain stock options and other share-based payments have no dilutive effect and are excluded from the calculation of diluted earnings per share.

32. Dividends

The dividends paid by the Controlling Company in 2011 and 2010 were ₩ 586,150 million (₩ 2,410 per share) and ₩ 486,393 million (₩ 2,000 per share), respectively. A dividend in respect of the year ended December 31, 2011, of ₩ 2,000 per share, amounting to a total dividend of ₩ 486,602 million, is to be proposed at the shareholders' meeting on March 16, 2012. These consolidated financial statements do not reflect this dividend payable.

33. Cash Generated from Operations

Cash flows from operating activities for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)		**2011**		**2010**
1. Profit for the period	₩	1,452,019	₩	1,314,884
2. Adjustments to reconcile net income				
Income tax expenses		316,735		396,369
Interest income[1]		(325,028)		(257,483)
Interest expense[1]		588,366		585,462
Depreciation		2,671,858		2,972,503
Amortization of intangible assets		319,875		266,299
Provision for severance benefits		250,576		160,095
Bad debt expenses		168,096		204,009
Income or losses from jointly controlled entities and associates[2]		473		(33,182)
Gain or loss on disposal of jointly controlled entities and associates		(190,631)		(16,727)
Impairment on jointly controlled entities and associates		5,107		-
Impairment on property and equipment		18,594		10,464
Gain or loss on disposal of property and equipment		(226,571)		62,425
Contribution of provisions		59,116		58,253
Reversal of provisions		(4,963)		(12,909)
Foreign currency translation gain(loss)		79,189		(33,339)
Gain or loss on valuation of derivatives		(28,101)		(5,405)
Others		(282,083)		(83,628)
3. Changes in operating assets and liabilities				
Increase in trade receivables		(1,412,493)		(1,033,307)
Decrease in other receivables		879,746		208
Increase in loans receivable		(152,497)		(285,207)
Increase in finance lease receivables		(183,669)		(156,863)
Increase in other assets		(79,175)		(167,179)
Decrease in inventories		32,113		55,954
Increase in trade payables		98,761		142,014
Decrease in other payables		(1,077,806)		(393,388)
Increase in other liabilities		62,579		(3,034)
Decrease in provisions		29,365		264,900
Increase in deferred revenue		196,507		219,629
Increase in contribution on plan assets		(125,984)		(3,848)
Payment of severance benefits		(235,037)		(955,910)
4. Net cash provided by operating activities (1+2+3)	₩	2,905,037	₩	3,272,059

[1] Interest income of ₩ 173,740 million (2010: ₩ 160,043 million) recognized as operating revenues and interest expense ₩ 106,951million (2010: ₩ 95,537 million) recognized as operating expense

are included.

[2] Operating revenue of ₩ 2,701 million (2010: ₩ 622 million) and operating expenses of ₩ 136 million (2010: ₩ 126 million) from jointly controlled entities and associates are included.

Significant transactions not affecting cash flows for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Reclassification of the current portion of bonds payable	₩ 1,080,549	₩ 1,920,773
Reclassification of construction-in-progress to property and equipment	3,165,808	2,383,898

34. Segment Information

The Company's operating segments are as follows:

Details	**Business service**
Personal Customer Group ("Personal")	Personal customers using PCS and Wibro
Home / Enterprise Customer Group ("Home" / "Enterprise")	Telephone, internet, data and others
Others	Facilities, installment financing, and others

Details of each segment for the years ended December 31, 2011 and 2010, are as follows:

	2011		
(in millions of Korean won)	**Operating revenues**	**Operating income(loss)**	**Depreciation and Amortization**
Personal	₩ 10,026,309	₩ 1,087,406	₩ 1,177,272
Home/Enterprise	10,140,508	938,520	1,660,489
Others	4,696,234	106,485	129,139
Sub-total	24,863,051	2,132,411	2,966,900
Elimination	(2,873,000)	(158,690)	(7,418)
Consolidated amount	₩ 21,990,051	₩ 1,973,721	₩ 2,959,482

	2010		
(in millions of Korean won)	**Operating revenues**	**Operating income(loss)**	**Depreciation and Amortization**
Personal	₩ 9,715,134	₩ 902,014	₩ 1,383,402
Home/Enterprise	10,193,591	1,091,903	1,655,961

Others	2,716,780	67,238	83,673
Sub-total	22,625,505	2,061,155	3,123,036
Elimination	(2,299,230)	(53,284)	(14,593)
Consolidated amount	₩ 20,326,275	₩ 2,007,871	₩ 3,108,443

The geographic data information provided to the management for the geographic data for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won) Location	Operating revenues		Non-current assets[1]		
	2011	**2010**	**2011.12.31**	**2010.12.31**	**2010.1.1**
Domestic	₩ 21,934,481	₩ 20,287,117	₩ 17,325,954	₩ 15,677,411	₩ 16,172,144
Overseas	55,570	39,158	49,936	202,267	194,303
Total	₩ 21,990,051	₩ 20,326,275	₩ 17,375,890	₩ 15,879,678	₩ 16,366,447

[1] Non-current assets include fixed assets, intangible assets (excluding goodwill) and investment property.

35. Related Party Transactions

The list of subsidiaries of the Company as of December 31, 2011, is described in Note 1.2.

The related receivables and payables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	2011.12.31		**2010.12.31**		**2010.1.1**	
(in millions of Korean won)	**Receivables**	**Payables**	**Receivables**	**Payables**	**Receivables**	**Payables**
Associates	₩ 8,308	₩ 372,457	₩ 16,933	₩ 335,610	₩ 11,317	₩ 194,461
Joint Ventures	2,321	125,439	1,099	111,120	-	-
Total	₩ 10,629	₩ 497,896	₩ 18,032	₩ 446,730	₩ 11,317	₩ 194,461

Significant transactions with related parties for the years ended December 31, 2011 and 2010, are as follows:

	2011		**2010**	
(in millions of Korean won)	**Operating revenue**	**Operating Expenses**	**Operating revenue**	**Operating Expenses**
Associates	₩ 76,419	₩ 870,681	₩ 169,526	₩ 923,592
Joint Ventures	13,531	55,787	23,684	55,139
Total	₩ 89,950	₩ 926,468	₩ 193,210	₩ 978,731

Key management compensation for the years ended December 31, 2011 and 2010, consists of:

(in millions of Korean won)	**2011**		**2010**	
Salaries and other short-term benefits	₩	3,153	₩	3,011
Provision for severance benefits		270		150
Stock-based compensation		1,990		2,147
Total	₩	5,413	₩	5,308

36. Financial risk management

(1) Financial risk factors

The Company's activities expose itself to a variety of financial risks such as changes in foreign exchange rates, interest rates and market prices arising from future commercial transactions and recognized assets and liabilities. The Company's financial risk management is focused on controlling these risks in its operating and financing activities. The Company uses derivatives to hedge certain financial risk exposures such as fair value risk and cash flow risk.

The Company's financial policy is set up in the long-term perspective and annually reported to the Board of Directors. The financial risk management is carried out by the Value Management Office, which identifies, evaluates and hedges financial risks. The treasury department in the Value Management Office considers various market conditions to estimate the effect from the market changes.

1) Market risk

The Company's market risk management focuses on controlling the extent of exposure to the risk in order to minimize revenue volatility. Market risk is a risk that decreases value or profit of the Company's portfolio due to changes in market interest rate, foreign exchange rate and other factors.

(i) Sensitivity analysis

Sensitivity analysis is performed for each type of market risk to which the Company is exposed. Reasonably possible changes in the relevant risk variable such as prevailing market interest rates, currency rates, equity prices or commodity prices are estimated and if the rate of change in the underlying risk variable is stable, the Company does not alter the chosen reasonably possible change in the risk variable. The reasonably possible change does not include remote or 'worst case' scenarios or 'stress tests'.

(ii) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from operating, investing and financing activities. Foreign exchange risk is managed within the range of the possible effect on the

Company's cash flows. Foreign exchange risk unaffecting the Company's cash flows is not hedged but can be hedged at a particular situation.

As of December 31, 2011 and 2010, if the foreign exchange rate had strengthened/weakened by 10% with all other variables held constant, the effects on profit before income tax and shareholders' equity would have been as follows:

(in millions of Korean won)	**Fluctuation of foreign exchange rate**	**Income before tax**	**Shareholders' equity**
2011.12.31	+ 10%	₩ (57,174)	₩ (50,471)
	- 10%	57,174	50,471
2010.12.31	+ 10%	(60,833)	(45,933)
	- 10%	60,833	45,933

The above analysis is a simple sensitivity analysis which assumes that all the variables other than foreign exchange rates are held constant. Therefore, the analysis does not reflect any correlation between foreign exchange rates and other variables, nor the management's decision to decrease the risk.

Details of foreign assets and liabilities of the Company as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in thousands of foreign currencies)	**2011.12.31**		**2010.12.31**		**2010.1.1**	
	Financial assets	**Financial liabilities**	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial liabilities**
USD	209,742	2,299,644	201,620	2,421,054	226,385	2,365,536
SDR	1,160	744	5,721	4,256	15,225	8,566
JPY	1,080,392	35,446,361	970,586	19,913,770	79,202	19,550,183
GBP	7	108	6	131	10	51
EUR	1,239	3,357	632	1,317	276	118
DZD	18,714	-	20,339	-	-	-
AUD	-	-	-	-	13	-
CNY	14,495	700	14,772	991	-	-
RUR	-	-	1,412,479	238,975	-	-
UZS	-	-	16,679,037	59,788,523	-	-
IDR	411,687	10,000	-	-	-	-
KWD	-	-	-	-	-	288

(iii) Price risk

As of December 31, 2011 and 2010, the Company is exposed to equity securities price risk because the securities held by the Company are traded in active markets. If the market prices had increased/decreased by 10% with all other variables held constant, the effects on profit before income tax and shareholders' equity would have been as follows:

(in millions of Korean won)	**Fluctuation of price**	**Income before tax**	**Shareholders' equity**
2011.12.31	+ 10%	₩ -	₩ 4,375
	- 10%	-	(4,375)
2010.12.31	+ 10%	₩ -	1,914
	- 10%	-	(1,914)

The analysis is based on the assumption that the equity index had increased/decreased by 10% with all other variables held constant and all the Company's marketable equity instruments had moved according to the historical correlation with the index.

(iv) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from liabilities in foreign currency such as foreign currency bonds payable. Bonds payable in foreign currency issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by swap transactions. Bonds payable and borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company sets the policy and operates to minimize the uncertainty of the changes in interest rates and financial costs.

As of December 31, 2011 and 2010, if the market interest rate had increased/decreased by 100bp with other variables held constant, the effects on profit before income tax and shareholders' equity would be as follows:

(in millions of Korean won)	**Fluctuation of interest rate**	**Income before tax**	**Shareholders' equity**
2011.12.31	+ 100 bp	₩ (1,488)	₩ (345)
	- 100 bp	(13,108)	(14,445)
2010.12.31	+ 100 bp	(660)	(3,618)
	- 100 bp	(17,293)	(14,603)

The above analysis is a simple sensitivity analysis which assumes that all the variables other than market interest rates are held constant. Therefore, the analysis does not reflect any correlation between market interest rates and other variables, nor the management's decision to decrease the risk.

2) Credit risk

Credit risk is managed on the Company basis with the purpose of minimizing financial loss. Credit risk arises from the normal transactions and investing activities, where clients or other party fails to discharge an obligation on contract conditions. To manage credit risk, the Company considers the counterparty's credit based on the counterparty's financial conditions, default history and other important factors.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as outstanding receivables. To minimize such risk, only the financial institutions with strong credit ratings are accepted.

As of December 31, 2011 and 2010, and January 1, 2010, maximum exposure to credit risk that are not considered of value of collateral held regarding financial instrument are as follows.

(In millions of Korean won)		**2011.12.31**		**2010.12.31**		**2010.1.1**
Cash equivalents(except cash on hand)	₩	1,433,839	₩	1,152,995	₩	1,539,660
Trade and other receivables		7,882,329		5,318,713		4,515,007
Loans receivable		1,189,331		1,133,221		911,229
Finance lease receivables		736,660		597,339		522,765
Other financial assets						
Derivate financial assets		164,434		250,630		308,324
Financial instrument		289,628		116,269		370,262
Available-for-sale financial assets		25,829		1,565		3,151
Held-to-maturity financial assets		7		7		82
Financial guarantee contracts[1]		57,369		37,923		9,469
Performance guarantee contracts[1]		910		312		-
Total	₩	11,780,336	₩	8,608,974	₩	8,179,949

[1] Total amounts guaranteed by the Company according to the guarantee contracts

3) Liquidity risk

The Company manages its liquidity risk by liquidity strategy and plans. The Company considers the maturity of financial assets and financial liabilities and the estimated cash flows from operations.

The table below analyses the Company's liabilities into relevant maturity groups based on the remaining period at the date of the end of each reporting period to the contractual maturity date. These amounts are contractual undiscounted cash flows.

	2011.12.31							
(in millions of Korean won)		**Less than 1 year**		**1-5 years**		**More than 5 years**		**Total**
Trade and other payables	₩	5,708,878	₩	618,231	₩	21,771	₩	6,348,880
Finance lease payables		66,635		116,627		-		183,262
Borrowings		2,546,855		8,144,611		2,139,458		12,830,924

Other non-derivative financial liabilities[1]	-	331,170	-	331,170
Financial guarantee contracts[1]	57,369	-	-	57,369
Performance guarantee contracts[1]	910	-	-	910
Total	₩ 8,380,647	₩ 9,210,639	₩ 2,161,229	₩ 19,752,515

	2010.12.31			
(in millions of Korean won)	**Less than 1 year**	**1-5 years**	**More than 5 years**	**Total**
Trade and other payables	₩ 5,436,441	₩ 483,379	₩ 27,179	₩ 5,946,999
Finance lease payables	46,144	74,188	-	120,332
Borrowings	3,200,317	6,746,895	1,152,118	11,099,330
Other non-derivative financial liabilities[1]	4,183	12,071	4,719	20,973
Financial guarantee contracts[1]	37,923	-	-	37,923
Obligation guarantee contracts[1]	312	-	-	312
Total	₩ 8,725,320	₩ 7,316,533	₩ 1,184,016	₩ 17,225,869

[1] Total amount guaranteed by the Company according to guarantee contracts. Cash flow from financial guarantee contracts is classified as the maturity group in the earliest period when the financial guarantee contracts can be executed

Cash outflow and inflow of derivatives settled gross or net are undiscounted contractual cash flow and can differ from the amount in the financial statements.

	2011.12.31			
(in millions of Korean won)	**Less than 1 year**	**1-5 years**	**More than 5 years**	**Total**
Outflow	₩ 414,646	₩ 1,949,253	₩ 42,541	₩ 2,406,440
Inflow	436,469	2,038,288	50,053	2,524,810

	2010.12.31			
(in millions of Korean won)	**Less than 1 year**	**1-5 years**	**More than 5 years**	**Total**
Outflow	₩ 613,404	₩ 1,590,493	₩ 43,805	₩ 2,247,702
Inflow	753,842	1,660,349	50,909	2,465,100

(2) Disclosure of capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company's capital structure consists of liabilities including borrowings, cash and cash equivalents, and shareholders' equity. The treasury department monitors the Company's capital structure and considers cost of capital and risks related each capital component.

The debt ratios as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Total liabilities	₩ 19,547,600	₩ 15,587,548	₩ 15,948,878
Total equity	12,537,809	11,354,055	10,714,816
Gearing ratio	156%	137%	149%

The Company manages capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' in the statement of financial position plus net debt.

The gearing ratio as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won, %)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Total borrowings	₩ 10,998,552	₩ 9,382,364	₩ 9,566,700
Less: cash and cash equivalents	(1,445,169)	(1,161,641)	(1,542,872)
Net debt	9,553,383	8,220,723	8,023,828
Total equity	12,537,809	11,354,055	10,714,816
Total capital	₩ 22,091,192	₩ 19,574,778	₩ 18,738,644
Gearing ratio	43%	42%	43%

(3) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Company's assets and liabilities that are measured at fair value as of December 31, 2011 and 2010, and January 1, 2010:

	2011.12.31			
(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Assets at fair value through the profit and loss	₩ –	₩ 1,386	₩ -	₩ 1,386
Available-for-sale	101,183	25,829	134,346	261,358
Derivative financial assets	-	164,434	-	164,434
Total	₩ 101,183	₩ 191,649	₩ 134,346	₩ 427,178
Liabilities				
Derivative financial liabilities	₩ -	₩ 6,548	₩ 2,258	₩ 8,806
Financial guarantee liabilities	-	8,042	-	8,042
Total	₩ -	₩ 14,590	₩ 2,258	₩ 16,848

	2010.12.31			
(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Assets at fair value through the profit and loss	₩ -	₩ 1,173	₩ -	₩ 1,173
Available-for-sale	25,469	1,565	-	27,034
Derivative financial assets	-	250,630	-	250,630
Total	₩ 25,469	₩ 253,368	₩ -	₩ 278,837
Liabilities				
Derivative financial liabilities	₩ -	₩ 20,471	₩ -	₩ 20,471
Hedged bonds	-	181,244	-	181,244
Financial guarantee liabilities	-	3,157	-	3,157
Total	₩ -	₩ 204,872	₩ -	₩ 204,872

	2010.1.1			
(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale	₩ 15,587	₩ 3,151	₩ -	₩ 18,738
Derivative financial assets	-	308,324	-	308,324
Total	₩ 15,587	₩ 311,475	₩ -	₩ 327,062
Liabilities				
Derivative financial liabilities	₩ -	₩ 11,279	₩ -	₩ 11,279
Hedged bonds	-	180,023	-	180,023
Total	₩ -	₩ 191,302	₩ -	₩ 191,302

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the bid price. These instruments are included in level 1. Instruments included in level 1 comprise listed equity investments classified as available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

The changes of the financial instrument included in Level 3 for the years ended December 31, 2011 are as follows:

(in millions of Korean won)	**Available-for-sale financial assets**	**Derivative financial liabilities**
Beginning	₩ -	₩ -
Total profit	-	-
Income for the year	-	(36)
Other comprehensive income	14,850	-
Transfer into Level 3 from the cost method	17,544	-
Changes in scope of consolidation	101,952	(2,222)
Ending	₩ 134,346	₩ (2,258)

The details of equity securities measured at historical cost as of December 31, 2011 and 2010, and January 1, 2010, are as follows.

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
SBSKTSPC[1]	₩ 25,000	₩ 25,000	₩ 15,000
MBCKTSPC[1]	11,000	11,000	11,000
KBSKTSPC[1]	11,000	-	-
IBK-AUCTUS Green Growth Private Equity	10,340	7,000	100

Fund[1]			
ELANDRETAIL.Ltd[1]	9,998	-	-
Vogo II-2 Investment Holdings Co., Ltd. [1]	4,813	-	-
Revolution Private Equity Fund[1]	4,500	-	-
KoFC-IMM Pioneer Champ 2010-17 venture investment[1]	3,000	2,010	-
Enterprise DB Corp. [1]	3,013	3,013	-
Others	77,233	97,087	66,878
Total	₩ 159,897	₩ 145,110	₩ 92,978

[1]The range of cashflow estimates is significant and the probabilities of the various estimates cannot be reasonably assessed and therefore these instruments are measured at cost.

The Company does not have any plans to dispose the above-mentioned equities instruments in the near future. These instruments will be measured at fair value when the Company can develop a reliable estimate of the fair value.

37. Business Combination

(1) KT Skylife Co., Ltd.

Due to the trend of convergence in the telecommunications and broadcasting market, the Controlling Company needed to obtain control over a broadcasting company to enhance the synergy effects of the resources within the consolidated subsidiaries. On January 27, 2011, the Controlling Company acquired from Dutch Savings Holdings B.V 5,600,000 of redeemable convertible preferred stock with voting rights and the bonds convertible into 5,600,000 of common stock of KT Skylife Co., Ltd. (formerly “Korea Digital Satellite Broadcasting Co., Ltd.”) for ₩246,400 million, which is engaged in the satellite broadcasting business. Including the potential voting rights, the Controlling Company’s ownership in KT Skylife Co., Ltd. has increased to 53.05% and accordingly, the Controlling Company has control over KT Skylife Co., Ltd. On March 10, 2011, the Controlling Company exercised the conversion right of both redeemable convertible preferred stocks and convertible bonds.

As a result of applying the acquisition method, the Company recognized goodwill of ₩306,303 million, which is the excess of total consideration transferred over the fair value of the net assets at the acquisition date. The fair value of the net assets at the acquisition date includes the identifiable intangible assets such as customer relationship, which was not previously recognized in the subsidiary’s financial statements.

Details of the consideration transferred, fair value of the acquired identifiable assets and liabilities, and goodwill at the acquisition date are as follows:

(in millions of Korean won)		**Amounts**
Consideration transferred (cash and cash equivalents)	₩	246,400
The acquisition-date fair value of the acquirer's previously held equity interest		280,773
	₩	527,173
The recognized amounts of assets acquired and liabilities assumed[1]		
Cash and cash equivalents	₩	78,730
Other financial assets		88,176
Trade and other accounts receivable		140,180
Inventories		5,715
Fixed assets including broadcast equipment and satellite communication facilities		142,641
Intangible assets including broadcast license and customer relationship		305,564
Investments in associates		5,716
Other assets		36,104
Trade and other accounts payable		(130,758)
Borrowings		(164,572)
Provisions for severance benefits		(11,256)
Accrued provisions		(919)
Deferred income tax liabilities		(51,171)
Other liabilities		(26,178)
The net of total amounts of identifiable assets and liabilities measured at fair value	₩	417,972
Non-controlling interests[2]		197,102
Goodwill	₩	306,303

[1] The assets acquired and liabilities assumed are measured at fair value in accordance with Korean IFRS 1103, *Business Combination.*

[2] At the date of acquisition, the Company measures any non-controlling interest in KT Skylife Co., Ltd. at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The amounts include non-controlling interest in Korea HD Broadcasting Corp., the subsidiary of KT Skylife.

As described in Note 15, the previously held interest in KT Skylife Co., Ltd. was measured at fair value, and the Company recognized other operating income of ₩187,458 million arising from the fair value measurement on acquisition.

After the acquisition date, the revenue and net income for consolidation of KT Skylife Co., Ltd. before the elimination of intercompany transactions with its subsidiaries are ₩116,748 and ₩7,321 million, respectively. The difference between its revenue and net income from the acquisition date and the revenue and net income if KT Skylife Co., Ltd. had been consolidated from January 1, 2011, included in consolidation is insignificant

The fair value of trade accounts receivable and other receivables acquired from KT Skylife Co., Ltd. is ₩140,180 million, while the full contract value is ₩168,693 million. The uncollectible amounts from these receivables are expected to be ₩28,513 million.

(2) BC Card Co.,Ltd.

KT Capital Co.,Ltd., which is a subsidiary of the Controlling Company, acquired common shares with voting right at ₩252,302 million from Woori Bank on October 6, 2011 in order to secure stable management control of BC card co., Ltd. and strengthen synergies between two firms based on determination of board meetings at February 11 and February 23 ,2011. By this acquisition, the company's ownership interests of BC Card Co.,Ltd. increased to 38.86% including ownership which were previously acquired from Citi Bank. Also, the Company entered into shareholders' agreement to exercise voting right of 1,349,920 registered common shares of BC Card Co.,Ltd. (30.68% of total BC Card Co.,Ltd. shares) owned by Vogo-BCC Investment Holdings Co.,Ltd. and KGF-BCC LIMITED on March 25, 2011. Based on the shareholders' agreement and the acquisition of common shares described above, the Company has control of BC card co., Ltd. from October 6, 2011(acquisition date).

As a result of applying the acquisition method, the Company recognized goodwill of ₩ 41,234 million, which is the excess of total consideration transferred over the fair value of the net assets at the acquisition date. The fair value of the net assets at the acquisition date includes the identifiable intangible assets such as customer relationship, which was not previously recognized in the subsidiary's financial statements.

Details of the consideration transferred, fair value of the acquired identifiable assets and liabilities, and goodwill at the acquisition date are as follows.

(in millions of Korean won)	**Amounts**
Consideration transferred (cash and cash equivalents)	₩ 257,137
Commitment for dividends payable [1]	39,220
The acquisition-date fair value of the acquirer's previously	8,712

held equity interest	
Total consideration transferred (a)	₩ 305,069
The recognized amounts of assets acquired and liabilities assumed[2]	
Cash and cash equivalents	₩ 657,956
Other financial assets	2,046,522
Trade and other accounts receivable	1,307
Fixed assets	242,411
Investment properties	2,845
Intangible assets including customer relationship	165,916
Available-for-sale financial assets	108,170
Other assets	60,942
Trade and other accounts payable	(1,890,937)
Borrowings	(58,000)
Current tax liabilities	(30,942)
Privisions	(25,674)
Provisions for severance benefits	(7,861)
Deferred income tax liabilities	(46,176)
Other liabilities	(568,028)
The net of total amounts of identifiable assets and liabilities measured at fair value (b)	₩ 658,451
Non-controlling interests[3] (c)	394,616
Goodwill (a-b+c)	₩ 41,234

[1] On June 23, 2010, the Korean Commercial Arbitration Board concluded that BC Card should pay the proceeds from the disposal of the shares of Visa Card to the member banks. Accordingly, the Company recorded the related proceeds to be paid to the member banks as other financial liabilities in the financial statements at the acquisition date.
[2] Assets and liabilities acquired were measured at fair value in accordance with Korean IFRS 1103 *'Business Combinations'*
[3] Non-controlling interests in the acquiree on acquisition are measured at the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets in the event of liquidation.

After the acquisition date, the revenue and net income for consolidation of BC Card Co,. Ltd. before the elimination of intercompany transactions with its subsidiaries are ₩782,853million and ₩945 million, respectively. If BC Card Co.,Ltd had been consolidated from January 1, 2011, the revenue and net income included in consolidation should have been ₩ 3,376,113million and ₩ 102,459million, respectively.

(3) Enswers Inc.

As approved by Board of Directors on November 11, 2011, the Company acquired on December 7, 2011, from existing shareholders 14,185 common shares and 3,676 of redeemable convertible preferred stock with voting rights of Enwers Inc, which is specialized in the video-related technology, in order to develop a new business and strengthen the existing business. The Company's ownership in Enwers Inc. has increased to 56.3% including the potential voting rights and accordingly, the Company acquired control over Enswers Inc.

Details of the consideration transferred, fair value of the acquired identifiable assets and liabilities, and goodwill at the acquisition date are as follows.

(in millions of Korean won)	**Amounts**
Consideration transferred (cash and cash equivalents)	₩ 15,957
The acquisition-date fair value of the acquirer's previously held equity interest	4,378
Total consideration transferred (a)	₩ 20,335
The recognized amounts of assets acquired and liabilities assumed[1]	
Cash and cash equivalents	₩ 920
Other financial assets	2,962
Trade and other accounts receivable	387
Current tax assets	41
Fixed assets	704
Intangible assets including Patents-Industrial and customer relationship	12,535
Other assets	562
Trade and other accounts payable	(19)
Other financial liabilities	(2,702)
Provisions for severance benefits	(479)
Deferred income tax liabilities	(2,701)
Other liabilities	(1,063)
The net of total amounts of identifiable assets and liabilities measured at fair value (b)	₩ 11,147
Non-controlling interests[2] (c)	3,237
Goodwill (a – b + c)	₩ 12,425

[1] Assets and liabilities acquired were measured at fair value in accordance with Korean IFRS 1103 '*Business combinations'*

[2] Non-controlling interests in the acquiree on acquisition are measured at the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets in the event of liquidation.

The previously held interest in Enswers Inc. was measured at fair value, and the Company recognized other operating income of ₩1,942 million arising from the fair value measurement on acquisition.

After the acquisition date, the revenue and net loss for consolidation of Enswers Inc. before the elimination of inter-company transactions with its subsidiaries are ₩797 and ₩331 million, respectively. If Enswers Inc. had been consolidated from January 1, 2011, the revenue and net loss included in consolidation should have been ₩ 3,467million and ₩ 1,512million, respectively.

The fair value of trade accounts receivable and other receivables acquired from Enswers Inc. is ₩387 million, while the full contract value is ₩414 million. The uncollectible amounts from these receivables are expected to be ₩ 27 million.

38. Assets Held for Sale and Discontinued Operations

As approved by the Controlling Company's Board of Directors on May 4, 2011, the Controlling Company decided to sell 5,309,189 shares (79.96%) of New Telephone Company, Inc. to Vimpel-Communication and the Controlling Company lost its control of New Telephone Company. The prior period financial statements presented for comparative purposes have been restated in accordance with Korean IFRS 1105, Non-current Assets Held for Sale and Discontinued Operations. Profit or loss arising from net fair value measurement and related income tax effect is reflected in profit or loss from discontinued operations.

The liquidation of KT Internal venture Fund NO.2, a former subsidiary, was completed on December 28, 2011. Therefore, the Company accounted for the operating result until the liquidation as discontinued operation and restated the prior year statement of income presented for the comparative purpose in accordance with Korean IFRS 1105 *"Non-current Assets Held for Sale and Discontinued Operations".* The Company also included the related gains or losses and income tax effects in the profit from the discontinued operation.

On June 1, 2010, the rent-a-car business segment of Kumho Rent-A-Car Global Co., Ltd., a joint venture investment, was split off and was merged with Kumho Rental Co., Ltd., resulting in the decrease of the Company's ownership in Kumho Rental Co., Ltd. from 100% to 58%. And as the Company has joint control of KT Rental Co., Ltd. under the shareholders' agreement, this subsidiary is accounted for under the equity method in accordance with Korean IFRS 1031, *Interest in Joint Ventures.* The operating results of KT Rental Co., Ltd. until the date the Company lost control are accounted for under discontinued operations.

The Company sold all shares of DOREMI MEDIA CO.,LTD and D&G Star to the third parties. The operating results of DOREMI MEDIA CO.,LTD and D&G Star prior to the loss of the control were accounted for as discontinued operation in 2010 and the related gains or losses and income tax effects are included in the profit from the discontinued operation.

Income and loss from discontinued operations for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Revenue	₩ 28,460	₩ 159,866
Expense	(22,630)	(133,605)
Income (loss) from discontinued operations before income taxes	5,830	26,261
Income tax expense for discontinued operations	(1,836)	(8,054)
Income (loss) from discontinued operations	3,994	18,207
Gain on disposal and fair valuation before income taxes	220,176	12,835
Income tax expense	(53,302)	(1,062)
Gain on disposal and fair valuation after tax	166,874	11,773
Income (loss) from discontinued operations	₩ 170,868	₩ 29,980

Cash flows from discontinued operations for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Cash flows from operating activities	₩ 6,527	₩ 8,416
Cash flows from investing activities	(4,095)	(8,241)
Cash flows from financing activities	(47,023)	4,632
Changes in foreign exchange rates	8,365	(7,384)
Total cash flows	₩ (36,226)	₩ (2,577)

39. Subsequent Events

Subsequent to December 31, 2011, the Company has issued the unsecured public bonds, as follows:

(in millions of Korean won and thousands of foreign currencies)	**Issue date**	**Face value of bond**	**Interest rate**	**Maturity date**	**Repayment method**
The 57-1st non-registered unsecured bond	2012.01.05	₩ 50,000	4.43%	2014.10.05	Lump sum repayment at maturity
The 57-2nd non-registered	2012.01.05	₩ 20,000	4.44%	2014.10.05	Lump sum repayment

unsecured bond					at maturity
The 57-3rd non-registered unsecured bond	2012.01.05	₩ 30,000	4.61%	2014.10.05	Lump sum repayment at maturity
Regulation S.Bond	2012.01.20	USD 350,000	3.875%	2017.01.20	Lump sum repayment at maturity

Subsequent to December 31, 2011, the additional contributions was made by the Controlling Company as follows:

(in millions of Korean won)	Date	Number of shares	Amount	Purpose
KT Capital Co.,Ltd	2012.01.25	4,712,103 common shares	41,000	To strengthen the financial stability

The Company entered into the shareholders' agreement with Vogo-BCC Investment Holdings Co.,Ltd. and KGF-BCC LIMITED on March 25, 2011 for the sustainable control over BC card co., Ltd, which is a subsidiary of the Company. Based on this agreement, the Company has exercised the call option for 1,349,920 common shares of BC Card Co., Ltd, owned by Vogo-BCC Investment Holdings Co.,Ltd. and KGF-BCC LIMITED(30.68% of total shares) for ₩ 28,713,408 million on January 27, 2012.

EXHIBIT 99-2 : SEPARATE FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011 AND 2010 AND INDEPENDENT AUDITORS' REPORT

KT Corporation

Separate Financial Statements
December 31, 2011 and 2010

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Report of Independent Auditors

To the Board of Directors and Shareholders of
KT Corporation

We have audited the accompanying separate statements of financial position of KT Corporation (the "Company") as of December 31, 2011 and 2010, and January 1, 2010 and the related separate statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the separate financial statements, referred to above, present fairly, in all material respects, the financial position of KT Corporation as of December 31, 2011 and 2010, and January 1, 2010, and its financial performance and cash flows for the years then ended December 31, 2011 and 2010, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS")

The Company also prepared the comparative separate financial statements in accordance with the previous accounting principles generally accepted in the Republic of Korea ("the previous K-GAAP") which are not included in this audit report. We had also conducted our audits on those financial statements prepared in accordance with former accounting principles generally accepted in the Republic of Korea and expressed an unqualified opinion on those statements in our audit report dated February 24, 2011.

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Auditing standards and their application in practice vary among countries. 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 is for use by those who are informed about Korean auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 8, 2012

This report is effective as of March 8, 2012, 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 separate 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
Separate Statements of Financial Position
December 31, 2011 and 2010, and January 1, 2010

(in millions of Korean won)	Notes		December 31, 2011		December 31, 2010		January 1, 2010
Assets							
Current assets							
Cash and cash equivalents	5, 6	₩	790,107	₩	901,308	₩	1,297,355
Trade and other receivables	5, 7		4,832,373		3,944,795		3,504,728
Other financial assets	5, 8		57,473		167,093		268,557
Inventories	9		514,076		593,479		655,327
Other current assets	10		181,571		193,385		169,227
Total current assets			6,375,600		5,800,060		5,895,194
Non-current assets							
Trade and other receivables	5, 7		1,607,843		1,037,862		696,230
Other financial assets	5, 8		216,078		178,877		355,328
Property and equipment	11,20		13,305,475		12,957,143		13,532,660
Investment property	12		1,118,757		1,129,175		1,012,107
Intangible assets	13		1,745,976		1,333,789		1,299,870
Investments in subsidiaries, associates and joint ventures	14		1,577,406		1,341,090		1,068,137
Deferred income tax assets	29		467,890		537,342		549,696
Other non-current assets	10		38,582		29,777		32,490
Total non-current assets			20,078,007		18,545,055		18,546,518
Total assets		₩	26,453,607	₩	24,345,115	₩	24,441,712

KT Corporation
Separate Statements of Financial Position
December 31, 2011 and 2010, and January 1, 2010

(in millions of Korean won)	Notes	December 31, 2011	December 31, 2010	January 1, 2010
Liabilities and equity				
Current liabilities				
Trade and other payables	5, 15	₩ 4,425,214	₩ 4,295,331	₩ 5,155,135
Borrowings	5, 16	1,086,193	1,940,367	1,024,681
Other financial liabilities	5, 8	5,000	-	4,674
Current income tax liabilities		149,543	272,333	-
Accrued provisions	17	114,324	51,726	21,896
Deferred revenue		160,889	143,764	128,094
Other current liabilities	10	94,519	138,566	163,719
Total current liabilities		6,035,682	6,842,087	6,498,199
Non-current liabilities				
Trade and other payables	5, 15	596,930	310,965	294,221
Borrowings	5, 16	7,415,355	5,556,984	6,802,247
Other financial liabilities	5, 8	1,076	19,837	3,782
Post-employment benefit liability	18	395,741	242,160	72,796
Accrued provisions	17	101,612	103,930	98,661
Deferred revenue		146,662	151,257	151,306
Other non-current liabilities	10	26,616	26,758	27,288
Total non-current liabilities		8,683,992	6,411,891	7,450,301
Total liabilities		14,719,674	13,253,978	13,948,500
Equity				
Capital stock	21	1,564,499	1,564,499	1,564,499
Share premium		1,440,258	1,440,258	1,440,258
Retained earnings	22	10,008,964	9,399,171	9,662,967
Accumulated other comprehensive income		(28,684)	(56,165)	(21,198)
Other components of equity	23, 24	(1,251,104)	(1,256,626)	(2,153,314)
Total equity		11,733,933	11,091,137	10,493,212
Total liabilities and equity		₩ 26,453,607	₩ 24,345,115	₩ 24,441,712

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

KT Corporation
Separate Statements of Income
Years ended December 31, 2011 and 2010

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

	Notes		2011		2010
Operating revenue	25	₩	20,166,817	₩	19,918,378
Operating expenses	26		18,140,891		17,914,807
Operating profit	27		2,025,926		2,003,571
Financial income	28		243,789		225,795
Financial costs	28		(611,437)		(589,252)
Profit before income tax			1,658,278		1,640,114
Income tax expense	29		369,223		391,268
Profit for the period		₩	1,289,055	₩	1,248,846
Earnings per share					
Basic earnings per share	30	₩	5,299	₩	5,135
Diluted earnings per share	30	₩	5,298	₩	5,135

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

KT Corporation
Separate Statements of Comprehensive Income
Years ended December 31, 2011 and 2010

(in millions of Korean won)

	Notes		2011		2010
Profit for the period		₩	1,289,055	₩	1,248,846
Other comprehensive income					
Valuation of available-for-sale financial assets			(792)		186
Actuarial loss on post-employment benefit obligations	18		(92,817)		(135,599)
Valuation of derivatives used for hedging			28,273		(35,153)
Total comprehensive income for the period		₩	1,223,719	₩	1,078,280

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

KT Corporation
Separate Statements of Changes in Equity
Years ended December 31, 2011 and 2010

(in millions of Korean won)

	Notes		Capital stock		Share premium		Retained earnings		Accumulated other comprehensive income (loss)		Other components of shareholders' equity		Total
Balance at January 1, 2010		₩	1,564,499	₩	1,440,258	₩	9,662,967	₩	(21,198)	₩	(2,153,314)	₩	10,493,212
Comprehensive income													
Profit for the period			-		-		1,248,846		-		-		1,248,846
Valuation of available-for-sale financial assets	8		-		-		-		186		-		186
Actuarial loss on post-employment benefit obligations	18		-		-		(135,599)		-		-		(135,599)
Valuation of derivatives used for hedging			-		-		-		(35,153)		-		(35,153)
Transactions with equity holders													
Dividends	22		-		-		(486,393)		-		-		(486,393)
Appropriations of loss on disposal of treasury stock	22		-		-		(890,650)		-		890,650		-
Others			-		-		-		-		6,038		6,038
Balances as of December 31, 2010		₩	1,564,499	₩	1,440,258	₩	9,399,171	₩	(56,165)	₩	(1,256,626)	₩	11,091,137
Balance at January 1, 2011		₩	1,564,499	₩	1,440,258	₩	9,399,171	₩	(56,165)	₩	(1,256,626)	₩	11,091,137
Comprehensive income													
Profit for the period			-		-		1,289,055		-		-		1,289,055
Valuation of available-for-sale financial assets	8		-		-		-		(792)		-		(792)
Actuarial loss on post-employment benefit obligations	18		-		-		(92,817)		-		-		(92,817)
Valuation of derivatives used for hedging			-		-		-		28,273		-		28,273
Transactions with equity holders													
Dividends	22		-		-		(586,150)		-		-		(586,150)
Appropriations of loss on disposal of treasury stock	22		-		-		(295)		-		295		-
Others			-		-		-		-		5,227		5,227
Balances as of December 31, 2011		₩	1,564,499	₩	1,440,258	₩	10,008,964	₩	(28,684)	₩	(1,251,104)	₩	11,733,933

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

KT Corporation
Separate Statements of Cash Flows
Years ended December 31, 2011 and 2010

(in millions of Korean won)

	Notes		2011		2010
Cash flows from operating activities					
Cash generated from operations	32	₩	3,146,921	₩	3,535,299
Interest paid			(422,470)		(451,149)
Interest received			26,149		82,169
Dividends received			42,387		49,588
Income tax paid			(376,915)		(60,978)
Income tax refund			-		31,482
Net cash generated from operating activities			2,416,072		3,186,411
Cash flows from investing activities					
Collection of loans			60,740		371,668
Loans granted			(58,546)		(184,329)
Disposal of short-term financial instruments			10,000		-
Acquisition of short-term financial instruments			(450)		-
Disposal of available-for-sale financial assets			3,013		53,741
Acquisition of available-for-sale financial assets			(32,207)		(26,564)
Disposal of Investments in subsidiaries, associates and joint ventures			420,282		46,170
Acquisition of Investments in subsidiaries, associates and joint ventures			(450,522)		(298,288)
Disposal of property and equipment			541,974		162,337
Acquisition of property and equipment			(3,006,524)		(2,576,388)
Disposal of intangible assets			6,067		4,202
Acquisition of intangible assets			(445,437)		(302,787)
Net cash used in investing activities			(2,951,610)		(2,750,238)
Cash flows from financing activities					
Proceeds from borrowings			4,667,320		1,303,874
Payments of borrowings			(3,729,012)		(1,610,221)
Settlement of derivatives			130,119		8,959
Payments of dividends			(586,150)		(486,393)
Decrease in finance leases liabilities			(57,944)		(48,353)
Net cash provided by (used in) financing activities			424,333		(832,134)
Exchange gains(losses) on cash and cash equivalents			4		(86)
Net decrease in cash and cash equivalents			(111,201)		(396,047)
Cash and cash equivalents					
Beginning of the period	6		901,308		1,297,355
End of the period	6	₩	790,107	₩	901,308

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

1. General information

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. The address of the Company's registered office is 206 Jungja-dong, Bundang-gu, Seongnam City, Gyeonggi Province, 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 Depository 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 additional ADS representing 55,502,161 government-shares were issued at the New York Stock Exchange and London Stock Exchange.

In 2002, the Company acquired 60,294,575 government-owned shares in accordance with the Korean government's privatization plan. As of December 31, 2011, the Korean government does not own any share in the Company.

On June 1, 2009, the Company, which is an existing Company, was merged with KT Freetel Co., Ltd. which was a subsidiary to enhance the efficiency of business management.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying financial statements.

The Company's financial statements for the annual period beginning on January 1, 2011, have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The financial statements of the Company were prepared in accordance with Korean IFRS and are subject to Korean IFRS1101, *First-time Adoption of Korean IFRS.* The transition date, according to Korean IFRS1101, from the previous accounting principles generally accepted in the Republic of Korea (the previous "K-GAAP") to Korean IFRS is January 1, 2010. Reconciliations and descriptions of the effect of the transition from the previous K-GAAP to Korean IFRS on the Company's equity, comprehensive income and cash flows are described in Note 4.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011, and not early adopted by the Company are as follows

- Amendments to Korean IFRS 1101, *Hyperinflation and Removal of Fixed Dates for first-time adopters*

As an exception to retrospective application requirements, this amendment to Korean IFRS 1101 allows a prospective application of derecognition of financial assets for transactions occurring on or after the date of transition to Korean IFRS, instead of fixed date (January 1, 2004). Accordingly, the Company is not required to restate and recognize those assets or liabilities that were derecognized as a result of a transaction that occurred before the dated of transition to Korean IFRS. This amendment is effective for the Company from annual periods beginning on or after July 1, 2011. The Company expects that the application of this amendment would not have material impact on its financial statements

- Amendments to Korean IFRS 1012, *Income Taxes*

According to the amendments to Korean IFRS 1012, *Income Taxes*, for the investment property that is measured using the fair value model, the measurement of deferred tax liability and deferred tax asset should reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale, unless evidences support otherwise. This amendment is effective for the Company as of January 1, 2012. The Company expects that the application of this amendment would not have material impact on its financial statement.

- Amendments to Korean IFRS 1019, *Employee Benefits*

According to the amendments to Korean IFRS 1019, *Employee Benefits*, use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense (income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities (assets). This amendment will be effective for the Company as of January 1, 2013, and the Company is assessing the impact of application of the amended Korean IFRS 1019 on its financial statements as of the report date.

- Amendments to Korean IFRS 1107, *Financial Instruments: Disclosures*

According to the amendment, an entity should provide the required disclosures of nature, carrying amount, risk and rewards associated with all transferred financial instruments that are not derecognized from an entity's financial statements. In addition, an entity is required to disclose additional information related to transferred and derecognized financial instruments for any continuing involvement in transferred assets. This amendment is effective for the Company from annual periods beginning on or after July 1, 2011. The Company expects that it would not have a material impact on the financial statements.

- Enactment of Korean IFRS 1113, *Fair value measurement*

Korean IFRS 1113, *Fair value measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRS. Korean IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within Korean IFRS. This amendment will be effective for the Company as of January 1, 2013, and the Company expects that it would not have a material impact on the financial statements.

2.2 Subsidiaries, Associates and Joint ventures

The financial statements of the Company are separate financial statements based on Korean IFRS 1027, *Consolidated and nonconsolidated financial statements*. Investments in subsidiaries, joint ventures, and associates are recognised at cost under the direct equity method. Management applied the carrying amounts under the previous K-GAAP at the time of first adoption of the Korean IFRS as deemed cost of investments. The Company recognizes dividend income from subsidiaries, jointly controlled entities or associates in profit or loss when its right to receive dividend is established.

2.3 Foreign Currency Translation

(1) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'Korean won', which is the Company's functional and presentation currency.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at each reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income, except when recognized in other comprehensive income as qualifying cash flow hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Foreign currency translation differences on non-monetary financial assets and liabilities are recognized as a part of the fair value gain or loss. Translation differences on equity instruments classified as available-for-sale are included in other comprehensive income, while translation differences on equity instruments classified as financial assets and liabilities at fair value through profit or loss are included in the statement of income.

2.4 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of less than three months.

2.5 Trade Receivables

Trade receivables are amounts due from customers for inventories sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets where, otherwise, they are presented as non-current assets.

Trade receivables are recognized initially at fair value, less allowance for doubtful accounts. Non-current trade receivables are measured at amortized cost using the effective interest method.

2.6 Financial Instruments

(1) Classification

The Company classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments, and financial liabilities measured at amortized cost. Management determines the classification of its financial instruments at initial recognition.

1) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial assets held for trading. Financial assets and liabilities are classified in this category if acquired or incurred principally for the purpose of selling or reacquisition in the short term. Derivatives that are not subject to hedge accounting are also categorized in this category. Financial assets and liabilities at fair value through profit or loss are classified in current assets and current liabilities, respectively.

2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables are classified as 'cash and cash equivalents', 'trade and other receivables', and 'other financial assets' in the financial statements.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months from the end of the reporting period.

4) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity and are categorized in 'other financial assets' in the financial statements. If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale financial assets. Held-to-maturity financial assets are included in non-current assets, except for those with maturities of less than 12 months from the end of the reporting period which are classified as current assets.

5) Financial liabilities measured at amortised cost

The Company classifies non-derivative financial liabilities as financial liabilities measured at amortized cost, except for financial liabilities at fair value through profit or loss or for financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition. The Company's financial liabilities measured at amortised cost are classified as 'trade and other payables', 'borrowings' and 'other financial liabilities' in the financial statements. For cases not qualifying for derecognition, the transferred asset continues to be recognized and a financial liability is measured as the consideration received. Financial liabilities measured at amortized cost are included in non-current liabilities, except for liabilities with maturities of less than 12 months as of the end of the reporting period, which are classified as current liabilities.

(2) Recognition and measurement

Regular purchases or sale of financial assets are recognized using trade date accounting. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the statement of income within 'financial income (costs)' in the period when they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of income when the Company's right to receive payments is established.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be measured reliably are measured at cost. Other available-for-sale financial assets are measured at fair value.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.
When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are reported in the statement of income as 'profit or loss' from investment securities'.

Interest on available-for-sale financial assets calculated using the effective interest method is recognized in the statement of income as part of 'financial income'. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of 'financial income' when the Company's right to receive payments is established.

(3) Offsetting financial instruments

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

(4) Derecognition financial assets

Financial assets are derecognized when the contractual rights to receive cash flows from the investments have expired or have been transferred and the Company has substantially transferred all risks and rewards of ownership. If the risk and rewards of ownership of transferred assets have not been substantially transferred, the Company reviews the level of control retained over that asset and the extent of its continuing involvement to determine if transfers do not qualify for derecognition.

2.7 Impairment of Financial Assets

(1) Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) Adverse changes in the payment status of borrowers in the portfolio; and
  (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of income.

(2) Assets classified as available-for-sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria refer to (1) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of income.

2.8 Derivative Financial Instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The gain or loss relating to derivative financial instruments is recognized as financial income (cost) in the statement of income. The Company designates certain derivatives as either:

- Hedges of the fair value of a recognized asset or liability or a firm commitment (fair value hedge); or
- Hedges of a particular risk associated with a recognized asset or liability on a highly probable forecast transaction (cash flow hedge)

The Company documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes on fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes and movements on the hedging reserve in shareholders' equity are shown in Note 9. The full fair value of a hedging item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(1) Fair value hedge.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity.

(2) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately as financial income (costs) in the statement of income.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The Company applies cash flow hedge accounting to hedge the risks of foreign exchange and interest rates of the variable rate foreign currency bonds.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statements of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognized in equity is immediately transferred to the profit or loss in the statement of income.

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method, except for inventories in-transit and land which are determined using the specific identification method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

2.10 Non-current Assets Held for Sale

Non-current assets are classified as assets held for sale when their carrying amounts are to be recovered principally through a sale transaction and the sale is highly probable. They are stated at the lower of carrying amount or fair value less costs to sell if their carrying amounts are to be recovered principally through a sale transaction rather than through continuing use and if the sale is highly probable.

2.11 Property and Equipment

All property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributed to the acquisition of the items. However, in accordance with Korean IFRS 1101, *First-time Adoption of Korean IFRS*, the Company measured certain buildings and telecommunications equipment at fair value at the date of transition to Korean IFRS and the fair value is used as their deemed cost at that date.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

		Estimated Useful Lives
Buildings		5 – 40 years
Structures		5 – 40 years
Telecommunications equipment		3 – 40 years
	Vehicles	4 years
Others	Tools	4 years
	Office equipment	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of income.

2.12 Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at its cost less any accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using the straight-line method over their estimated useful lives.

The depreciation method, the residual value and the useful life of an asset are reviewed at least at the end of each reporting period and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

Gains or losses arising from the disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in the operating revenue and expenses in the statement of income.

2.13 Intangible Assets

(1) Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the Company's previously held equity interest in the acquiree over the net acquired identifiable assets at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(2) Intangible assets, except for goodwill

Intangible assets except for goodwill are measured at historical cost. These assets have definite useful lives and carried at historical cost less amortization. Amortization is calculated using the straight-line method to allocate the cost of assets over their estimated useful lives. However, facility usage rights (condominium membership and golf membership) and broadcast license are regarded as intangible assets with indefinite useful life and not amortized, because there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company.

The useful life of an asset with indefinite useful life is reviewed each period to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate. The depreciation method and useful life of an asset with definite useful life are reviewed at the end of each reporting period.

The estimated useful lives used for amortizing intangible assets are as follows:

	Estimated Useful Lives
Development costs	6 years
Goodwill	indefinite useful life
Software	6 years
Industrial property rights	5 – 10 years
Frequency usage rights	5.75 – 15 years
Others [1]	3 – 50 years

[1] Facility usage rights (condominium membership and golf membership) are classified as intangible assets with indefinite useful life.

(3) Research and development costs

Expenditure on research is recognized as an expense as incurred. If the expense as incurred that is identifiable and when the probable future economic benefits are expected, the cost for the new merchandises and technology is recognized as intangible assets when all the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is the ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs, previously recognized as an expense, are not recognized as an asset in a subsequent period. Capitalized development costs which are stated as intangible assets are amortized using the straight-line method when the assets are available for use and are subsequently tested for impairment.

2.14 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.15 Government Grants

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the statement of income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property and equipment are deferred and are credited to the statement of income on a straight-line basis over the expected lives of the related assets.

2.16 Impairment of Non-financial Assets

Assets that have an indefinite useful life such as goodwill are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are initially recognized at fair value and subsequently carried at amortized cost by using effective interest rate method.

2.18 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee is initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the amounts below. Any increase in the liability relating to guarantees is reported as other financial liabilities:

- The amounts determined in accordance with Korean IFRS 1037 *Provisions Contingent Liabilities and Contingent Assets*, or
- The amounts initially recognized less the accumulated amortization accordance with Korean IFRS 1018 *Revenue*

2.19 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method. The Company classifies the liability as current when it does not have an unconditional right to defer its settlement for at least 12 months after the reporting date.

2.20 Employee Benefits

(1) Retirement benefit liabilities

The liability recognized in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise and past-service costs are amortized over the vesting period.

(2) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

2.21 Share-based Payments

The Company operates share-based compensation plans, under which the Company receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognized as a compensation expense in the statement of income over the vesting period.

2.22 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and can be estimated reliably. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provisions due to passage of time is recognized as an interest expense.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

Lease of property and equipment where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in the finance lease liabilities.

The interest element of the finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

2.24 Capital Stock

Common stocks are classified as equity.

Where the Company purchases its own equity share capital (treasury stock), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the stocks are cancelled or reissued. Where such stocks are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

2.25 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(1) Sales of services

When providing interconnection or telecommunications service to a customer based on service plans, the related revenue is recognized at the time service is provided. If the customer uses the telecommunications equipment according to the service plans, the related revenue is recognized on straight-line basis over the contract period. Revenue related to the other telecommunications services is recognized when the service is provided to the customer.

For other services, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with such a transaction is recognized by reference to the stage of performance of the services. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Total consideration for combined services is allocated to each service in proportion to its fair value and the allocated amount is recognized as revenue according to revenue recognition policy for the service.

(2) Sales of goods

Sales of goods such as selling handsets are recognized when the Company has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

(3) Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

(4) Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(5) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.26 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Additionally, deferred income tax asset is recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention either to settle the balances on a net basis or to realize the asset and settle the liability simultaneously.

2.27 Dividend Distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.28 Approval of Issuance of the Financial Statements

The issuance of the Company's separate financial statements was approved by the Board of Directors on February 16, 2012.

3. Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

3.1 Estimated Impairment of Goodwill

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.16. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 13).

3.2 Income Taxes

Current and deferred income tax are determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

3.3 Fair Value of Derivatives and Other Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

3.4 Allowance for Doubtful Accounts

The Company recognizes provisions for accounting of estimated loss in customers' insolvency. When the allowance for doubtful accounts is estimated, it is based on the aging analysis of trade receivables balances, incurred loss experience, customers' credit rates and changes of payment terms. If the customer's financial position becomes worse, the actual loss amount will be increased more than the estimated.

3.5 Post-employment Benefit Liabilities

The present value of the post-employment benefit liabilities depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the post-employment benefit liabilities include the discount rate. Any changes in these assumptions will impact the carrying amount of the post-employment benefit liabilities.

The Company determines the appropriate discount rate at the end of each reporting period. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the post-employment benefit liabilities. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability. Other key assumptions for the post-employment benefit liabilities are based in part on current market conditions. Additional information is disclosed in Note 18.

3.6 Deferred Revenue

Service installation fees and initial subscription fees related to activation of service are deferred and recognized as revenue over the expected periods of customer relationships. The estimate of the expected terms of customer relationship is based on the historical data. If management's estimate is changed, it may cause significant differences in the timing of revenue recognition and amounts recognized.

3.7 Provisions

As described in Note 17, the Company records provisions for litigation and assets retirement obligations at the end of the reporting period. The provisions are estimated based on the factors such as the historical experiences.

3.8 Useful lives of Property and Equipments

Depreciation on the property and equipment is calculated using straight line method over their useful lives as described in Note 2.11. The estimated useful lives are determined based on expected usage of the assets and the estimates can be materially affected by technical changes and other factors. The Company will increase depreciation expenses if the useful lives are considered shorter than the previously estimated useful lives.

4. Transition to Korean IFRS

The Company's transition date to Korean IFRS is January 1, 2010, and adoption date is January 1, 2011. The Company prepared the opening statement of financial position as of January 1, 2010.

In preparing these financial statements in accordance with Korean IFRS 1101, *First-time Adoption of Korean IFRS*, the Company has applied the mandatory exceptions and certain optional exemptions allowed by Korean IFRS.

4.1 Exemptions options under Korean IFRS 1101

The Company has elected to apply the following optional exemptions from full retrospective application.

(1) Business combination

The Company has not retrospectively applied Korean IFRS 1103 to the business combinations that took place prior to the transition date of January 1, 2010 (the date of transition to Korean IFRS).

(2) Deemed cost of property and equipment

The Company has elected to measure certain property and equipment at fair value as of January 1, 2010, (the date of transition to Korean IFRS) and uses that fair value as its deemed cost at that date. The certain buildings and telecommunications equipment were measured using fair value as its deemed cost at transition date. The adjusted amount resulting from fair value revaluation is ₩ 256,781 million (before the income tax effects), with the total fair value of ₩ 6,492,658 million.

(3) Deemed cost of investments in subsidiaries, associates and joint ventures

When preparing financial statements, the Company has elected to use the previous GAAP carrying amounts as of January 1, 2010 (the date of transition to Korean IFRS), as deemed costs of the investments in subsidiaries, associates and joint ventures.

(4) Decommissioning liabilities included in the cost of property and equipment

According to Korean IFRS Interpretation 2101, *Changes in Existing Decommissioning, Restoration and Similar liabilities*, changes in a decommissioning, restoration or similar liability are added to or deducted from the cost of the asset to which it relates. The Company elects not to comply with these requirements for changes in such liabilities that occurred before the date of transition to Korean IFRS. The amounts to be included as costs of decommissioning assets are measured by discounting the liability over the intervening period and the accumulated depreciation on that amount is calculated at the date of transition to Korean IFRS.

(5) Borrowing costs

In respect of capitalizing borrowing costs incurred in the construction of a qualifying asset, the Company capitalizes interest on all qualifying assets for which the commencement date for capitalization is after the transition date subject to Korean IFRS 1023.

(6) Contribution for construction

Subject to Korean IFRS Interpretation 2118, the Company applies this interpretation prospectively to contribution for construction received on or after January 1, 2010 (the date of transition to Korean IFRS).

4.2 Mandatory Exceptions to Retrospective Application of Korean IFRS

The Company has applied the following mandatory exceptions.

(1) Derecognition of financial assets

The Company has prospectively applied Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*, to the transactions of financial assets after January 1, 2004. The Company has not applied Korean IFRS to transactions of financial assets before January 1, 2004, even if they met the requirements of derecognition .

(2) Exception for Estimations

The Company's estimates in accordance with Korean IFRS, at the date of transition (January 1, 2010) are consistent with estimates made for the same date in accordance with previous accounting standards (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

4.3 Significant Differences in Accounting Policies

Significant differences between the accounting policies chosen by the Company under Korean IFRS and under K-GAAP are as follows:

(1) Revenue recognition

Under the previous K-GAAP, non-refundable service installation fees for telephone and initial subscription fees for Personal Communications Service (PCS) and leased-line services are recognized as revenue when installation and initiation services are rendered. Under Korean IFRS, service installation fees and initial subscription fees related to activation of service are deferred and recognized as revenue over the expected terms of customer relationships.

In addition, under the previous K-GAAP, as the certain real estate revenue is considered as a construction type contract, the real estate revenue is recognized on a percentage of completion basis. Under Korean IFRS, as the related real estate revenue is considered as a sale of goods, real estate revenue is recognized at the time of the transfer to customer.

(2) Employee benefits

Under the previous K-GAAP, provisions for severance benefits were estimated assuming all eligible employees were to terminate their employment at the reporting date. Under Korean IFRS, the defined benefit obligations are measured by using actuarial method.

(3) Government grants

Under the previous K-GAAP, government grants were presented by deducting the grant from the carrying amount of the related assets. Under Korean IFRS, government grants are presented as liabilities for deferred revenue and recognized as revenue over the useful life of the asset.

(4) Investments in subsidiaries, associates and joint ventures

Under the previous K-GAAP, investments in subsidiaries, associates and joint ventures were accounted for using the equity method. Under Korean IFRS, investments are measured at costs in the financial statements.

(5) Capitalization of borrowing costs

Under the previous K-GAAP, borrowing costs were expensed as incurred from the initial date of manufacture, acquisition, construction and development until getting ready for its intended use or sale. Under Korean IFRS, the Company capitalizes 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.

(6) Customer loyalty programmes

Under the previous K-GAAP, the amount of future obligation was recognized as an expense and liability provision when sales occur. Under Korean IFRS, award credits are accounted for as a separately identifiable component of the sales transaction in which they are granted and the related revenue is deferred.

(7) Goodwill or gain on a bargain purchase arising from business combination

Under the previous K-GAAP, goodwill recognized at the business combination was amortized using the straight-line basis over five years from the year of acquisition and negative goodwill was recognized as income using the straight-line basis over the weighted average useful life of the acquired depreciable assets. Under Korean IFRS, goodwill is not amortized or reversed but tested for impairment at least annually. Gain on bargain purchase is recognized immediately in the statement of income.

(8) Deferred Tax

Under the previous K-GAAP, deferred tax assets and liabilities were either classified as current or non-current based on the classification of their underlying assets and liabilities. If there are no corresponding assets or liabilities the deferred tax assets and liabilities are classified based on their expected recoverable periods. Under Korean IFRS, deferred tax liabilities, are classified as non-current on the statement of financial position.

Under K-GAAP, temporary differences related to investments in subsidiaries, associates and joint ventures were treated as a single difference in determining whether to recognize deferred tax assets or liabilities. Under Korean IFRS, deferred tax assets and liabilities are recognized reflecting the manner of recovery or settlement of temporary difference of each component.

4.4 Reconciliation between Korean IFRS and K-GAAP

(1) Effects on the total assets, liabilities and equity as of January 1, 2010, the transition date of Korean IFRS

(in millions of Korean won)	Total assets	Total liabilities	Total equity
Reported amount under K-GAAP	₩ 24,344,232	₩ 13,945,978	₩ 10,398,254
Adjustments :			
Change in revenue recognition of real estate revenue	(176,352)	23,345	(199,697)
Deferred revenue such as initial subscription fees	-	250,552	(250,552)
Deemed cost of property and equipment	256,781	-	256,781
Valuation of financial instruments such as present value calculation	(6,488)	(86)	(6,402)
Actuarial estimation of post employment benefit	-	(239,922)	239,922
Readjustments of asset retirement obligation	2,865	8,858	(5,993)
Reclassifications of government grants	7,532	7,532	-
Others	12,713	(47,757)	60,470
Tax-effect on adjustments	429	-	429
Total	97,480	2,522	94,958
Adjusted amount under Korean IFRS	₩ 24,441,712	₩ 13,948,500	₩ 10,493,212

(2) Effects on the total assets, liabilities, equity and comprehensive income as of and for the year ended December 31, 2010

(in millions of Korean won)	**Total assets**	**Total liabilities**	**Total equity**	**Comprehensive income**
Reported amount under K-GAAP	₩ 24,101,007	₩ 13,060,115	₩ 11,040,892	₩1,133,762
Adjustments :				
Change in revenue recognition of real estate revenue	11,127	23,536	(12,409)	187,288
Deferred revenue such as initial subscription fees	-	231,769	(231,769)	18,783
Deemed cost of property and equipment	256,781	-	256,781	-
Changes in depreciation expenses due to deemed costs and others	(124,511)	-	(124,511)	(124,511)
Valuation of financial instruments such as present value calculation	(7,735)	(190)	(7,545)	(1,143)
Actuarial estimation of post employment benefit	-	(86,074)	86,074	(153,848)
Readjustments of asset retirement obligation	989	7,414	(6,425)	(433)
Reclassifications of government grants	24,812	24,544	268	268
Investments in subsidiaries, associates and joint ventures	(10,529)	-	(10,529)	(19,458)
Capitalization of borrowing cost	16,550	-	16,550	16,550
Others	70,064	(7,136)	77,200	16,730
Tax-effect on adjustments	6,560	-	6,560	4,292
Total	244,108	193,863	50,245	(55,482)
Adjusted amount under Korean IFRS	₩ 24,345,115	₩ 13,253,978	₩ 11,091,137	₩1,078,280

(3) Adjustments to the statements of cash flows

According to Korean IFRS, cash flows of the related income (expenses) and assets (liabilities) are adjusted to separately disclose the cash flows from interest received, interest paid and cash payments of income taxes that were not presented separately under K-GAAP. Also, other Korean IFRS transition effects are reflected on cash flows if they have an effect on cash flow.

5. Financial Instruments by Category

Financial instruments by category as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31				
Financial assets	**Loans and receivables**	**Assets at fair value through the profit and loss**	**Derivatives used for hedging**	**Available -for-sale**	**Total**
Cash and cash equivalents	₩ 790,107	₩ -	₩ -	₩ -	₩ 790,107
Trade and other receivables	6,440,216	-	-	-	6,440,216
Other financial assets	458	46,452	113,831	112,810	273,551

(in millions of Korean won	2011.12.31			
Financial liabilities	**Liabilities at fair value through the profit and loss**	**Derivatives used for hedging**	**Financial liabilities at amortized cost**	**Total**
Trade and other payables	₩ -	₩ -	₩ 5,022,144	₩ 5,022,144
Borrowings	-	-	8,501,548	8,501,548
Other financial liabilities	-	6,076	-	6,076

(in millions of Korean won)	2010.12.31				
Financial assets	**Loans and receivables**	**Assets at fair value through the profit and loss**	**Derivatives used for hedging**	**Available -for-sale**	**Total**
Cash and cash equivalents	₩ 901,308	₩ -	₩ -	₩ -	₩ 901,308
Trade and other receivables	4,982,657	-	-	-	4,982,657
Other financial assets	10,008	-	247,794	88,168	345,970

(in millions of Korean won	2010.12.31			
Financial liabilities	**Liabilities at fair value through the profit and loss**	**Derivatives used for hedging**	**Financial liabilities at amortized cost**	**Total**
Trade and other payables	₩ -	₩ -	₩ 4,606,296	₩ 4,606,296
Borrowings	-	-	7,497,351	7,497,351
Other financial liabilities	-	19,837	-	19,837

(in millions of Korean won)	2010.1.1				
Financial assets	**Loans and receivables**	**Assets at fair value through the profit and loss**	**Derivatives used for hedging**	**Available -for-sale**	**Total**
Cash and cash equivalents	₩ 1,297,355	₩ -	₩ -	₩ -	₩ 1,297,355
Trade and other receivables	4,200,958	-	-	-	4,200,958
Other financial assets	250,020	12,979	295,058	65,828	623,885

(in millions of Korean won	2010.1.1			
Financial liabilities	**Liabilities at fair value through the profit and loss**	**Derivatives used for hedging**	**Financial liabilities at amortized cost**	**Total**
Trade and other payables	₩ -	₩ -	₩ 5,449,356	₩ 5,449,356
Borrowings	-	-	7,826,928	7,826,928
Other financial liabilities	4,674	3,782	-	8,456

Income or expense (gain or loss) by financial instruments category for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Loans and receivables		
Interest income	₩ 131,392	₩ 86,895
Gain or loss on valuation	(108,324)	(141,498)
Foreign currency transaction gain or loss	8,139	(13,532)
Foreign currency translation gain or loss	4,617	(2,898)

Financial assets at fair value through the profit and loss		
Gain or loss on valuation	10,232	14,380
Reclassified to profit or loss from other comprehensive income [1,2]	879	-
Derivative used for hedging		
Gain or loss on transactions	(26,882)	(824)
Gain or loss on valuation	43,755	114
Other comprehensive income[1]	13,509	(27,897)
Reclassified to profit or loss from other comprehensive income [1,3]	6,374	3,259
Available -for-sale		
Interest income	205	908
Dividend income	690	2
Gain or loss on disposal	436	158
Impairment loss	(199)	(2,792)
Other comprehensive income[1]	(960)	238
Liabilities at fair value through the profit and loss		
Gain or loss on valuation	-	4,673
Derivatives used for hedging		
Gain or loss on valuation	1,041	(12,810)
Other comprehensive income[1]	8,340	(20,692)
Financial liabilities at amortized cost		
Interest expense[4]	(461,364)	(485,634)
Foreign currency transaction gain or loss	4,228	11,550
Foreign currency translation gain or loss	(83,938)	36,353
Total	₩ (447,830)	₩ (550,047)

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

[2] The Company discontinued prospectively hedge accounting for certain cash flow hedge derivatives, which are reclassified as financial instruments at fair value through profit or loss. The related gain or loss on valuation of cash flow hedge in other comprehensive income was reclassified to profit or loss for the period (Note 8).

[3] During the period, certain Company's derivatives were settled and the related gain or loss on valuation of cash flow hedge in other comprehensive income was reclassified to profit or loss for the period.

[4] The amounts reflecting interest expenses from derivatives.

6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Cash in hand	₩ 148	₩ 163	₩ 654
Cash in banks	71,644	199,012	136,319
Money Market Trust	464,000	320,000	108,000
Special money trust	10,000	140,000	807,000
Other financial instruments	244,315	242,133	245,382
Total	₩ 790,107	₩ 901,308	₩ 1,297,355

Cash and cash equivalents in the statement of financial position equal to cash and cash equivalents in the statement of cash flows.

Restricted cash and cash equivalents as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1	Description
Cash in banks	₩ 8,563	₩ 9,494	₩ 10,241	Restricted for research and development

7. Trade and Other Receivables

Trade and other receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31			
	Total amounts	**Allowance for doubtful accounts**	**Discount**	**Book value**
Current assets				
Trade receivables	₩ 5,042,807	₩ (424,089)	₩ (62,604)	₩ 4,556,114
Other receivables	431,658	(155,328)	(71)	276,259
Total	₩ 5,474,465	₩ (579,417)	₩ (62,675)	₩ 4,832,373
Non-current assets				
Trade receivables	₩ 1,429,749	₩ (9,953)	₩ (113,489)	₩ 1,306,307
Other receivables	340,109	-	(38,573)	301,536
Total	₩ 1,769,858	₩ (9,953)	₩ (152,062)	₩ 1,607,843

(in millions of Korean won)	2010.12.31			
	Total amounts	**Allowance for doubtful accounts**	**Discount**	**Book value**
Current assets				
Trade receivables	₩ 4,138,155	₩ (474,246)	₩ (48,285)	₩ 3,615,624
Other receivables	467,586	(138,229)	(186)	329,171
Total	₩ 4,605,741	₩ (612,475)	₩ (48,471)	₩ 3,944,795
Non-current assets				
Trade receivables	₩ 869,475	₩ (7,124)	₩ (75,740)	₩ 786,611
Other receivables	276,866	-	(25,615)	251,251
Total	₩ 1,146,341	₩ (7,124)	₩ (101,355)	₩ 1,037,862

(in millions of Korean won)	2010.1.1			
	Total amounts	**Allowance for doubtful accounts**	**Discount**	**Book value**
Current assets				
Trade receivables	₩ 3,734,488	₩ (439,959)	₩ (27,846)	₩ 3,266,683
Other receivables	391,473	(152,502)	(926)	238,045
	₩ 4,125,961	₩ (592,461)	₩ (28,772)	₩ 3,504,728

Total				
Non-current assets				
Trade receivables	₩ 441,544	₩ (2,678)	₩ (47,578)	₩ 391,288
Other receivables	334,153	-	(29,211)	304,942
Total	₩ 775,697	₩ (2,678)	₩ (76,789)	₩ 696,230

The fair values of trade and other receivables with maturities less than one year equal their book values because the discounting effect is immaterial. The fair value of other trade and other receivables is determined discounting the expected future cash flow at the weighted average borrowing rate.

Details of changes in allowance for doubtful accounts for the years ended December 31, 2011 and 2010, are as follows:

	2011		2010	
(in millions of Korean won)	Trade receivables	Other receivables	Trade receivables	Other receivables
Beginning	₩ 481,370	₩ 138,229	₩ 442,637	₩ 152,502
Provision	102,830	22,465	145,610	5,780
Reversal or write-off	(150,158)	(5,366)	(106,877)	(20,053)
Ending	₩ 434,042	₩ 155,328	₩ 481,370	₩ 138,229

Provision for doubtful trade and other receivables is recognized as operating expenses.

Details of aging analysis of trade receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Receivables within maturity	₩ 5,247,584	₩ 3,863,999	₩ 2,815,840
Overdue receivables			
Up to nine months	605,464	558,108	506,149
Nine months to twelve months	150,383	138,680	185,316
Over twelve months	293,032	322,818	593,303
	6,296,463	4,883,605	4,100,608
Allowance for doubtful accounts	(434,042)	(481,370)	(442,637)
Total	₩ 5,862,421	₩ 4,402,235	₩ 3,657,971

Details of other receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Loans receivable	₩ 74,075	₩ 94,387	₩ 93,455
Accounts receivable	412,228	412,817	342,176

Accrued income	3,272	2,723	11,560
Deposits paid	243,405	208,687	248,205
Others	143	37	93
Allowance for doubtful accounts	(155,328)	(138,229)	(152,502)
Total	₩ 577,795	₩ 580,422	₩ 542,987
Current	276,259	329,171	238,045
Non-current	301,536	251,251	304,942

Details of aging analysis of other receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Receivables within maturity	₩ 527,314	₩ 569,794	₩ 545,351
Overdue receivables			
Up to nine months	157,561	26,367	88,339
Nine months to twelve months	11,522	77,424	15,512
Over twelve months	36,726	45,066	46,287
	733,123	718,651	695,489
Allowance for doubtful accounts	(155,328)	(138,229)	(152,502)
Total	₩ 577,795	₩ 580,422	₩ 542,987

The maximum exposure of trade and other receivables to credit risk is the carrying value of each class of receivables mentioned above as of December 31, 2011.

8. Other Financial Assets and Liabilities

Other financial assets and liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Other financial assets			
Derivatives	₩ 160,283	₩ 247,794	₩ 308,037
Financial instruments [1]	7,999	16,473	255,584
Available-for-sale financial assets	105,269	81,703	60,264
Less: Non-current	(216,078)	(178,877)	(355,328)
Current	₩ 57,473	₩ 167,093	₩ 268,557
Other financial liabilities			
Derivatives	₩ 6,076	₩ 19,837	₩ 8,456
Less: Non-current	(1,076)	(19,837)	(3,782)
Current	₩ 5,000	₩ -	₩ 4,674

[1] As of December 31, 2011, the Company's financial assets amounting to ₩8 million (2010.12.31: ₩8 million; 2010.1.1: ₩3 million) are checking account deposits subject to withdrawal restrictions.

Derivatives as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31 Assets	2011.12.31 Liabilities	2010.12.31 Assets	2010.12.31 Liabilities	2010.1.1 Assets	2010.1.1 Liabilities
Interest rate swap	₩ 3	₩ -	₩ 1,213	₩ -	₩ 23	₩ 4,674
Currency swap	160,280	6,076	246,581	19,837	295,035	3,782
Call Option	-	-	-	-	12,979	-
	160,283	6,076	247,794	19,837	308,037	8,456
Less: Non-current						
Interest rate swap	(3)	-	-	-	(23)	-
Currency swap	(110,798)	(1,076)	(97,166)	(19,837)	(295,035)	(3,782)
	(110,801)	(1,076)	(97,166)	(19,837)	(295,058)	(3,782)
Current	₩ 49,482	₩ 5,000	₩ 150,628	₩ -	₩ 12,979	₩ 4,674

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedging item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

The valuation gains and losses on the derivatives contracts for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011				
	For trading		For hedging		
Type of Transaction	Valuation gain	Valuation loss	Valuation gain	Valuation loss	Accumulated other comprehensive income[1]
Interest rate swap [2]	₩ 3	₩ -	₩ -	₩ -	₩ -
Currency swap [3,4]	10,229	-	53,727	8,931	21,849
Total	₩ 10,232	₩ -	₩ 53,727	₩ 8,931	₩ 21,849

(in millions of Korean won)	2010				
	For trading		For hedging		
Type of Transaction	Valuation gain	Valuation loss	Valuation gain	Valuation loss	Accumulated other comprehensive income[1]
Interest rate swap [2]	₩ 4,674	₩ -	₩ 1,190	₩ -	₩ -
Currency swap [3,4]	-	-	33,595	47,481	(48,589)

Call option	14,379	-	-	-	-
Total	₩ 19,053	₩ -	₩ 34,785	₩ 47,481	₩ (48,589)

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

[2] The interest rate swap contract is to hedge the risk of variability in future fair value of the bond.

[3] The currency swap contract is to hedge the risk of variability in cash flow from the bond.

[4] In applying the cash flow hedge accounting, the Company hedges its exposures to cash flow fluctuation until September 7, 2034.

Gain on valuation due to the fair value evaluation of the bond to hedge fair value is nil (2010: loss on valuation: ₩ 1,190 million).

The ineffective portion of recognized in profit or loss on the cash flow hedge is gain on valuation ₩ 2,714 million (2010: gain on valuation: ₩ 10,341 million).

The Company discontinued prospectively hedge accounting for certain currency swaps that were previously designated as hedging instruments for cash flows because the hedge effectiveness could not be demonstrated. The derivatives were reclassified to the financial instruments at fair value through profit or loss.

Details of available-for-sale financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Marketable equity securities	₩ 8,625	₩ 11,269	₩ 10,132
Non-marketable equity securities	93,644	70,434	48,932
Debt securities	3,000	-	1,200
Others	7,541	6,465	5,564
Less : Non-current	(105,269)	(81,703)	(60,264)
Current	₩ 7,541	₩ 6,465	₩ 5,564

Changes in available-for-sale financial assets for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Beginning	₩ 88,168	₩ 65,828
Acquisition	32,207	26,564
Disposal	(2,578)	(3,582)
Valuation	(960)	238
Impairment	(199)	(2,792)
Other	(3,828)	1,912

Ending	₩ 112,810	₩ 88,168

Relative to available-for-sale financial assets, accumulated other comprehensive income amounting to ₩ (-)792 million was recognized for the year ended December 31, 2011 (2010: ₩ 186 million). There has been no reclassification adjustment in the accumulated other comprehensive income for the current period. Impairment loss amounting to ₩ 199 million was recognized for the current period (2010: ₩ 2,792 million).

The maximum exposure of debt securities of available-for-sale financial assets to credit risk is carrying value as of December 31, 2011.

Available-for- sale financial assets are measured at fair value. However, non-marketable equity securities that do not have quoted market prices in an active market and the fair value of which cannot be reliably measured are recognized at cost. When the reasonably estimated recoverable amounts of non-marketable securities are less than the carrying amounts, impairment loss is recognized.

9. Inventories

Inventories as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	2011.12.31			2010.12.31			2010.1.1		
(in millions of Korean won)	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
Merchandise	₩ 485,086	₩ (23,965)	₩ 461,121	₩ 509,581	₩ (34,731)	₩ 474,850	₩ 540,937	₩ (41,346)	₩ 499,591
Supplies	15,850	(144)	15,706	26,424	(196)	26,228	30,315	(662)	29,653
Goods in transit	-	-	-	55,563	-	55,563	69,249	-	69,249
Others	37,249	-	37,249	36,838	-	36,838	56,834	-	56,834
Total	₩ 538,185	₩ (24,109)	₩ 514,076	₩ 628,406	₩ (34,927)	₩ 593,479	₩ 697,335	₩ (42,008)	₩ 655,327

Inventories write-downs recognized as expenses are ₩ 24,207 million for the year ended December 31, 2011 (2010: ₩ 38,262 million).

10. Other Assets and Liabilities

Other assets and liabilities as of as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Other assets			
Advance payments	₩ 88,789	₩ 103,024	₩ 63,577
Prepaid expenses	131,364	120,138	111,889
Deferred tax assets	-	-	26,251
Less: Non-current	(38,582)	(29,777)	(32,490)
Current	₩ 181,571	₩ 193,385	₩ 169,227
Other liabilities			
Advances received	₩ 102,641	₩ 145,304	₩ 162,492
Withholdings	15,171	17,965	25,661
Unearned revenue	3,323	2,055	2,854
Less: Non-current	(26,616)	(26,758)	(27,288)
Current	₩ 94,519	₩ 138,566	₩ 163,719

11. Property and Equipment

Changes in property and equipment for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	Land	Buildings and structures	Telecommunications equipment	Others	Construction - in-progress	Total
	2011					
Acquisition cost	₩ 1,110,296	₩ 3,607,159	₩ 30,796,073	₩ 1,660,485	₩ 741,989	₩ 37,916,002
Accumulated depreciation (including accumulated impairment loss and others)	(132)	(1,097,162)	(22,549,137)	(1,273,508)	(38,920)	(24,958,859)
Balance at 2011.1.1	₩ 1,110,164	₩ 2,509,997	₩ 8,246,936	₩ 386,977	₩ 703,069	₩ 12,957,143
Acquisition	5	14	9,238	7,673	3,051,209	3,068,139
Disposal	(35,427)	(103,854)	(63,056)	(36,543)	-	(238,880)
Depreciation	-	(143,751)	(2,250,125)	(140,125)	-	(2,534,001)
Transfer	3,802	94,763	2,936,082	131,161	(3,165,808)	-
Others	5,731	(80,958)	(18,857)	109,422	37,736	53,074
Balance at 2011.12.31	₩ 1,084,275	₩ 2,276,211	₩ 8,860,218	₩ 458,565	₩ 626,206	₩ 13,305,475
Acquisition cost	₩ 1,084,407	₩ 3,463,294	₩ 32,581,236	₩ 1,672,244	₩ 653,091	₩ 39,454,272
Accumulated depreciation (including accumulated impairment loss and others)	(132)	(1,187,083)	(23,721,018)	(1,213,679)	(26,885)	(26,148,797)

(in millions of Korean won)	Land	Buildings and structures	Telecommunications equipment	Others	Construction - in-progress	Total
	2010					
Acquisition cost	₩ 1,182,247	₩ 3,688,372	₩ 30,812,936	₩ 2,008,280	₩ 582,687	₩ 38,274,522
Accumulated depreciation (including accumulated impairment loss and others)	(132)	(979,340)	(22,076,151)	(1,625,616)	(60,623)	(24,741,862)
Balance at 2010.1.1	₩ 1,182,115	₩ 2,709,032	₩ 8,736,785	₩ 382,664	₩ 522,064	₩ 13,532,660
Acquisition	-	-	13,492	19,695	2,543,200	2,576,387
Disposal	(19,816)	(42,606)	(110,726)	(27,955)	-	(201,103)
Depreciation	-	(180,649)	(2,511,185)	(134,531)	-	(2,826,365)
Transfer	6,913	125,054	2,145,712	106,219	(2,383,898)	-
Others	(59,048)	(100,834)	(27,142)	40,885	21,703	(124,436)
Balance at 2010.12.31	₩ 1,110,164	₩ 2,509,997	₩ 8,246,936	₩ 386,977	₩ 703,069	₩ 12,957,143
Acquisition cost	₩ 1,110,296	₩ 3,607,159	₩ 30,796,073	₩ 1,660,485	₩ 741,989	₩ 37,916,002
Accumulated depreciation (including accumulated impairment loss and others)	(132)	(1,097,162)	(22,549,137)	(1,273,508)	(38,920)	(24,958,859)

The borrowing costs capitalized for qualifying assets amount to ₩ 14,151 million for the year ended December, 2011 (2010: ₩ 16,644 million). The interest rate applied to calculate the capitalized borrowing costs in 2011 is 5.23 % (2010: 5.08 %).

12. Investment Property

Changes in investment property for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011			2010		
	Land	Buildings	Total	Land	Buildings	Total
Acquisition Cost	₩ 313,016	₩ 1,146,130	₩ 1,459,146	₩ 252,220	₩ 1,014,127	₩ 1,266,347
Accumulated Depreciation (including accumulated impairment loss and others)	-	(329,971)	(329,971)	-	(254,240)	(254,240)
Beginning	₩ 313,016	₩ 816,159	₩ 1,129,175	₩ 252,220	₩ 759,887	₩ 1,012,107
Disposal	(10,660)	(27,023)	(37,683)	(2,952)	(5,710)	(8,662)
Depreciation	-	(46,846)	(46,846)	-	(45,591)	(45,591)
Transfer	(6,082)	80,193	74,111	63,748	107,573	171,321
Ending	₩ 296,274	₩ 822,483	₩ 1,118,757	₩ 313,016	₩ 816,159	₩ 1,129,175
Acquisition Cost	₩ 296,274	₩ 1,179,953	₩ 1,476,227	₩ 313,016	₩ 1,146,130	₩ 1,459,146
Accumulated Depreciation (including accumulated impairment loss and others)	-	(357,470)	(357,470)	-	(329,971)	(329,971)

The buildings mentioned above are depreciated over the period of 10~40 years using the straight-line method.

The fair value of investment property is ₩ 2,503,674 million as of December 31, 2011 (2010.12.31: ₩ 2,190,749 million; 2010.1.1: ₩ 2,008,901 million). The fair value of investment property is estimated based on the expected cash flow.

Rental income from investment property is ₩ 149,731 million (2010: ₩ 113,868 million) and direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period are recognized as operating expenses

Certain land and buildings are pledged as collaterals for the rental and leasehold contracts with the maximum amount of ₩ 70,317 million (2010.12.31: ₩ 67,206 million; 2010.1.1: ₩ 65,902 million).

13. Intangible Assets

Changes in intangible assets for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011						
	Goodwill	Industrial rights	Development costs	Software	Frequency usage rights	Others	Total
Acquisition cost	₩ 65,057	₩ 23,271	₩ 933,327	₩ 365,683	₩ 1,342,023	₩ 279,750	₩ 3,009,111
Accumulated depreciation (including accumulated impairment loss and others)	-	(14,987)	(552,847)	(216,624)	(762,813)	(128,051)	(1,675,322)
Balance at 2011.1.1	₩ 65,057	₩ 8,284	₩ 380,480	₩ 149,059	₩ 579,210	₩ 151,699	₩ 1,333,789
Acquisition	-	-	155,465	92,529	441,485	8,648	698,127
Disposal	-	(491)	(1,783)	(83)	-	(3,370)	(5,727)
Depreciation	-	(1,576)	(95,460)	(44,170)	(124,998)	(13,577)	(279,781)
Other	-	-	(432)	-	-	-	(432)
Balance at 2011.12.31	₩ 65,057	₩ 6,217	₩ 438,270	₩ 197,335	₩ 895,697	₩ 143,400	₩ 1,745,976
Acquisition cost	₩ 65,057	₩ 16,292	₩ 1,079,561	₩ 455,228	₩ 1,783,508	₩ 277,124	₩ 3,676,770
Accumulated depreciation (including accumulated impairment loss and others)	-	(10,075)	(641,291)	(257,893)	(887,811)	(133,724)	(1,930,794)

(in millions of Korean won)	2010						
	Goodwill	Industrial rights	Development costs	Software	Frequency usage rights	Others	Total
Acquisition cost	₩ 65,057	₩ 22,767	₩ 767,451	₩ 346,801	₩ 1,342,023	₩ 300,152	₩ 2,844,251
Accumulated depreciation (including accumulated impairment loss and others)	-	(13,287)	(546,266)	(201,201)	(647,395)	(136,232)	(1,544,381)
Balance at 2010.1.1	65,057	9,480	221,185	145,600	694,628	163,920	1,299,870
Acquisition	-	520	242,696	53,506	-	6,065	302,787
Disposal	-	-	(14,248)	(4,608)	-	(3,154)	(22,010)
Depreciation	-	(1,716)	(69,153)	(45,439)	(115,418)	(15,132)	(246,858)
Balance at 2010.12.31	₩ 65,057	₩ 8,284	₩ 380,480	₩ 149,059	₩ 579,210	₩ 151,699	₩ 1,333,789
Acquisition cost	₩ 65,057	₩ 23,271	₩ 933,327	₩ 365,683	₩ 1,342,023	₩ 279,750	₩ 3,009,111
Accumulated depreciation (including accumulated impairment loss and others)	-	(14,987)	(552,847)	(216,624)	(762,813)	(128,051)	(1,675,322)

The carrying amount of industrial rights not amortized due to indefinite useful lives is ₩ 91,423 million as of December 31, 2011 (2010.12.31: ₩ 92,782 million; 2010.1.1: ₩ 93,283 million).

Goodwill is allocated to the Company's cash-generating units ("CGU"s) identified by operating segments. As of December 31, 2011, the Company's goodwill is allocated to the Personal Customer Group.

Goodwill impairment reviews are undertaken annually. The recoverable amount of CGU is determined based on value-in-use calculations. This calculation uses pre-tax cash flow projections based on financial budgets approved by management. Cash flows beyond the Company's financial plan are extrapolated using the estimated growth rates and the growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The Company determined the gross margin rate based on past performance and its expectations of market development. The average growth rates used are estimated based on the historical growth rate. In addition, the Company estimated the pre-tax cashflow based on past performance and its expectation of market growth and the discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

As a result of impairment testing, the Company considers that the carrying value of CGU does not exceed recoverable amount of CGU. Therefore, there has been no impairment loss of goodwill for the years ended December 31, 2011 and 2010.

14. Investments in Subsidiaries, Associates and Joint ventures

Book value in investments in subsidiaries, associates and joint ventures as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Subsidiaries	₩1,078,990	₩ 836,506	₩ 723,210
Associates and joint ventures	498,416	504,584	344,927
Total	₩1,577,406	₩1,341,090	₩1,068,137

Investments in subsidiaries

(in millions of Korean won)	Location	2011.12.31 Percentage of ownership (%)	Carrying Value 2011.12.31	Carrying Value 2010.12.31	Carrying Value 2010.1.1
KT Skylife Co., Ltd.	Korea	50.16%	₩ 311,696	₩ 65,296	-
KT Capital	Korea	81.62%	226,092	126,092	126,092
KT Hitel	Korea	65.94%	120,078	120,078	120,078
KT Networks Corporation	Korea	100.00%	48,684	48,684	48,684
KT M&S	Korea	100.00%	37,564	37,564	37,564
KT Powertel [1]	Korea	44.85%	37,419	37,419	37,419
KTSC Investment Management B.V	Netherlands	60.00%	36,275	36,275	36,275
KT Estate Inc.	Korea	100.00%	29,244	8,000	-
Telecop Service Co.	Korea	86.82%	26,045	26,045	26,045
Nasmedia, Inc.	Korea	51.42%	23,051	23,051	23,051
KT New Business Fund No.1	Korea	90.91%	20,112	20,112	10,112
KT Tech	Korea	93.76%	-	20,000	-
KTDS	Korea	95.31%	19,616	19,616	19,616
KT Music [1]	Korea	48.69%	17,417	17,417	17,417
Gyeonggi-KT Green Growth Fund [2]	Korea	40.32%	12,480	12,480	12,480
KT Strategic Investment Fund No. 1	Korea	90.91%	10,000	10,000	-
New Telephone Company, Inc[3]	Russia	-	-	168,654	168,654
KTSB Data service	Korea	51.00%	18,870	-	-
Enswers Inc	Korea	55.68%	15,957	-	-
KC smart service Co.,Ltd.	Korea	82.76%	13,984	-	-
KT Innotz Inc.,	Korea	100.00%	10,000	-	-
Korea HD Broadcasting Corp.[1]	Korea	14.85%	3,000	-	-
H&C Network [4]	Korea	1.00%	1,011	-	-

KT Cloudware Corporation	Korea	100.00%	1,000	-	-
Others			39,395	39,723	39,723
Total			₩ 1,078,990	₩ 836,506	₩ 723,210

[1] Even though the Company has less than 50% ownership in these entities, they are deemed to be the Company's subsidiaries due to the dispersion of the non-controlling interests and previous voting pattern at the shareholders' meetings in the past.

[2] Even though the Company has less than 50% ownership, its subsidiary, KT Capital Co., Ltd. owns 16.13% and the combined total ownership exceeds 50%.

[3] The Company sold 5,309,189 shares (79.96% ownership) of New Telephone Company, Inc. as approved by the Board of Directors on May 4, 2011.

[4] Even though the Company has less than 50% ownership in this entity, it is deemed to be the Company's subsidiary because its other shareholders, excluding the Company, have limited voting rights under Section 11 of the Fair Trade Act or the restriction of voting rights of the insurance company.

Investments in associates and joint ventures

(in millions of Korean won)	**Location**	**2011.12.31 Percentage of ownership (%)**	**Carrying Value 2011.12.31**	**2010.12.31**	**2010.1.1**
KT Rental[1]	Korea	58.00%	₩ 156,957	₩ 172,807	₩ 69,074
KIF Investment fund	Korea	33.33%	115,636	115,636	115,636
Wibro Infra Co.,LTD	Korea	26.22%	65,000	65,000	-
KT Submarine Co., Ltd.	Korea	36.92%	24,370	24,370	24,370
KTCS Corporation[2]	Korea	17.49%	16,449	16,449	16,449
KTIS Corporation[2]	Korea	17.80%	16,413	16,413	16,413
KT-Global New Media Fund	Korea	50.00%	12,932	12,932	12,932
K-REALTY CR REIT 1[2]	Korea	15.00%	30,000	-	-
Mongolian Telecommunications	Mongolia	40.00%	11,135	11,135	11,135
Others			49,524	69,842	78,918
Total			₩ 498,416	₩ 504,584	₩ 344,927

[1] The Company has more than 50% ownership; however, the entity was classified as a joint venture due to exercise of joint control under the arrangement of shareholders.

[2] The Company has less than 20% ownership; however, the equity method accounting has been applied as it is considered that the Company has the significant influence over the operating and financial policies of those entities.

The summary of financial information of associates and joint ventures for the years ended December 31, 2011 and 2010, and as of January 1, 2010 are as follows:

(in millions of Korean won)	2011.12.31			
	Asset	**Liability**	**Revenue**	**Net income (loss)**
KT Rental[1]	₩ 1,419,392	₩ 1,167,454	₩ 657,971	₩ 27,321
KIF Investment fund	358,476	-	15,630	2,880
Wibro Infra Co.,LTD	257,745	5,221	2,294	2,863
KT Submarine Co., Ltd.	127,063	48,004	111,453	6,700
KTCS Corporation	172,268	56,072	380,506	19,923
KTIS Corporation	174,460	56,013	373,397	21,078
KT-SB venture investment fund	25,823	536	-	(38)
K-REALTY CR REIT 1[2]	504,898	305,941	474	(76)
Mongolian Telecommunications	28,081	-	20,747	780
Others	415,915	186,518	432,059	2,597
Total	₩ 3,484,121	₩ 1,825,759	₩ 1,994,531	₩ 84,028

(in millions of Korean won)	2010.12.31			
	Asset	**Liability**	**Revenue**	**Net income (loss)**
KT Rental[1]	₩ 933,557	₩ 673,211	₩ 378,775	₩ 13,797
KIF Investment fund	367,721	-	28,377	22,014
Wibro Infra Co.,LTD	338,491	88,830	374	1,739
KT Submarine Co., Ltd.	106,038	33,367	71,154	8,182
KTCS Corporation	168,243	53,237	353,950	16,270
KTIS Corporation	160,555	54,850	349,114	20,537
KT-SB venture investment fund	25,357	32	-	(539)
KT Skylife Co., Ltd.	533,246	385,935	431,356	42,956
Mongolian Telecommunications	41,075	10,294	19,636	1,363
Others	520,912	187,416	751,358	(2,837)
Total	₩ 3,195,195	₩ 1,487,172	₩ 2,384,094	₩ 123,482

	2010.1.1	
(in millions of Korean won)	**Asset**	**Liability**
KIF Investment fund	₩ 346,909	₩ -
KT Submarine Co., Ltd.	109,996	43,877
KTCS Corporation	130,587	48,486
KTIS Corporation.	126,501	45,990
KT-SB venture investment fund	26,139	275
KT Skylife Co., Ltd.	448,079	344,151
CU Construction Co.,	123,060	55,853
Mongolian Telecommunications	33,775	6,264
Others	373,631	127,495
Total	₩ 1,718,677	₩ 672,391

Changes in investments in subsidiaries, associates and joint ventures for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Beginning	₩ 1,341,090	₩ 1,068,137
Acquisition	477,766	325,795
Disposal	(206,037)	(51,557)
Other[1,2]	(35,413)	(1,285)
Ending	₩ 1,577,406	₩ 1,341,090

[1] The Company recognized impairment loss in CU Construction Co., KT Tech, Inc, KT Edui Co.,Ltd. and Mos Facilities Co., amounting to ₩ 12,769 million, ₩ 20,000 million, ₩ 3,031 million and ₩113 million, respectively.

[2] The Company reclassified Wooridle Video Investment of ₩ 1,285 million from investments in associates to available-for-sale asset.

Marketable investments in subsidiaries, associates and joint ventures as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	2011.12.31			
	Number of shares	**Market value per share *(in Korean won)***	**Fair value *(in millions of Korean won)***	**Book value *(in millions of Korean won)***
KT Hitel Co., Ltd.	22,750,000	₩ 7,260	₩ 165,165	₩ 120,078
KT Submarine Co., Ltd.	1,617,000	13,200	21,344	24,370
KT Music Corporation	14,494,258	2,515	36,453	17,417
KTCS Corporation	8,132,130	2,070	16,834	16,449
KTIS Corporation	6,196,190	2,800	17,349	16,413
KT Skylife Co., Ltd.	47,666,614	27,400	1,306,065	311,696
Mongolian	10,348,111	2,268	23,470	11,135

Telecommunications

	2010.12.31			
	Number of shares	**Market value per share** *(in Korean won)*	**Fair value** *(in millions of Korean won)*	**Book value** *(in millions of Korean won)*
KT Hitel Co., Ltd.	22,750,000	₩ 8,160	₩ 185,640	₩ 120,078
KT Submarine Co., Ltd.	1,617,000	20,550	33,229	24,370
KT Music Corporation	14,494,258	2,710	39,279	17,417
KTCS Corporation	8,132,130	2,210	17,972	16,449
KTIS Corporation	6,196,190	3,510	21,749	16,413
Mongolian Telecommunications	10,348,111	3,413	35,319	11,135

	2010.1.1			
	Number of shares	**Market value per share** *(in Korean won)*	**Fair value** *(in millions of Korean won)*	**Book value** *(in millions of Korean won)*
KT Hitel Co., Ltd.	22,750,000	₩ 7,250	₩ 164,938	₩ 120,078
KT Submarine Co., Ltd.	1,617,000	15,200	24,578	24,370
KT Music Corporation	14,494,258	3,635	52,687	17,417
Mongolian Telecommunications	10,348,111	1,878	19,434	11,135

As of December 31, 2011, investments in subsidiaries, associates and joint ventures, pledged as collateral for the investee's borrowing, is as follows:

(in millions of Korean won)	**Investee**	**Amount**
Investments in associates and joint ventures	Smart Channel Co., Ltd.	₩ 6,500

15. Trade and Other Payables

Trade and other payable as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Current Liability			
Accounts payable	₩ 1,361,120	₩ 1,231,773	₩ 1,350,143
Other payables	3,064,094	3,063,558	3,804,992
Total	₩ 4,425,214	₩ 4,295,331	₩ 5,155,135
Non-Current Liability			
Accounts payable	₩ 12,630	₩ 14,472	₩ 16,208
Other payables	584,300	296,493	278,013
Total	₩ 596,930	₩ 310,965	₩ 294,221

Details of other payables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Account s payable	₩ 2,240,709	₩ 1,857,389	₩ 2,638,049
Accrued expenses	379,667	429,947	372,330
Operating deposits	604,072	731,068	749,381
Others	423,946	341,647	323,245
Less: Non-current	(584,300)	(296,493)	(278,013)
Current	₩ 3,064,094	₩ 3,063,558	₩ 3,804,992

16. Borrowings

Details of borrowings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

Bonds Payable

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

Type	Maturity	Annual interest rates	2011.12.31 Foreign currency	2011.12.31 Korean won	2010.12.31 Foreign currency	2010.12.31 Korean Won	2010.1.1 Foreign currency	2010.1.1 Korean Won
MTNP notes [1]	2014.06.24	5.88%	USD 600,000	₩ 691,980	USD 600,000	₩ 683,340	USD 600,000	₩ 700,560
MTNP notes [1]	2034.09.07	6.50%	USD 100,000	115,330	USD 100,000	113,890	USD 100,000	116,760
MTNP notes [1]	2015.07.15	4.88%	USD 400,000	461,320	USD 400,000	455,560	USD 400,000	467,040
MTNP notes [1]	2016.05.03	5.88%	USD 200,000	230,660	USD 200,000	227,780	USD 200,000	233,520
Euro bonds	2012.04.11	5.13%	USD 200,000	230,660	USD 200,000	227,780	USD 200,000	233,520
FR notes [2]	2013.09.11	LIBOR(3M) +1.5%	USD 200,000	230,660	USD 200,000	227,780	USD 200,000	233,520
FR notes [2]	2013.04.09	LIBOR(3M) +0.47%	USD 100,000	115,330	USD 100,000	113,890	-	-
Japanese yen bonds	2013.01.25	1.58%	JPY35,000,000	519,806	-	-	-	-
The 132nd Public bond	2011.02.09	-	-	-	-	70,000	-	70,000
The 159th Public bond	2013.10.27	5.39%	-	300,000	-	300,000	-	300,000
The 160thPublic bond	2010.11.24	-	-	-	-	-	-	200,000
The 161st Public bond	2010.12.23	-	-	-	-	-	-	230,000
The 162nd Public bond	2011.02.27	-	-	-	-	320,000	-	320,000
The 163rd Public bond	2014.03.30	5.51%	-	170,000	-	170,000	-	170,000
The 164th Public bond	2011.06.21	-	-	-	-	260,000	-	260,000
The 165-1st Public bond	2011.08.26	-	-	-	-	130,000	-	130,000
The 165-2nd Public bond	2014.08.26	4.44%	-	140,000	-	140,000	-	140,000
The 166-1st Public bond	2010.03.21	-	-	-	-	-	-	220,000
The 166-2nd Public bond	2012.03.21	4.57%	-	100,000	-	100,000	-	100,000
The 167-1st Public bond	2012.04.20	4.59%	-	100,000	-	100,000	-	100,000
The 167-2nd Public bond	2015.04.20	4.84%	-	100,000	-	100,000	-	100,000
The 168-1st Public bond	2012.06.21	4.43%	-	240,000	-	240,000	-	240,000
The 168-2nd Public bond	2015.06.21	4.66%	-	90,000	-	90,000	-	90,000
The 169th Public bond	2012.04.03	5.01%	-	140,000	-	140,000	-	140,000
The 170th Public bond	2011.01.11	-	-	-	JPY12,500,000	174,635	JPY12,500,000	157,853
The 171st Public bond	2013.02.28	5.41%	-	100,000	-	100,000	-	100,000
The 172-1st Public bond	2011.03.31	-	-	-	USD 50,000	56,945	USD 50,000	58,380
The 172-2nd Public bond [2]	2012.03.31	LIBOR(3M) +1.6%	USD 110,000	126,863	USD 110,000	125,279	USD 110,000	128,436
The 173-1st Public bond	2013.08.06	6.49%	-	100,000	-	100,000	-	100,000
The 173-2nd Public bond	2018.08.06	6.62%	-	100,000	-	100,000	-	100,000
The 174-1st Public bond	2010.12.19	-	-	-	-	-	-	100,000
The 174-2nd Public bond	2011.12.19	-	-	-	-	130,000	-	130,000

The 175-1st Public bond	2012.02.27	4.80%	-	40,000	-	40,000	-	40,000
The 175-2nd Public bond	2014.02.27	5.47%	-	360,000	-	360,000	-	360,000
The 176-1st Public bond	2012.05.28	4.37%	-	100,000	-	100,000	-	100,000
The 176-2nd Public bond	2014.05.28	5.06%	-	170,000	-	170,000	-	170,000
The 176-3rd Public bond	2016.05.28	5.24%	-	260,000	-	260,000	-	260,000
The 177-1st Public bond	2013.02.09	4.86%	-	240,000	-	240,000	-	-
The 177-2nd Public bond	2015.02.09	5.26%	-	190,000	-	190,000	-	-
The 177-3rd Public bond	2017.02.09	5.38%	-	170,000	-	170,000	-	-
The 178-1st Public bond [2]	2013.01.18	LIBOR(3M) +1.0%	USD 100,000	115,330	-	-	-	-
The 178-2nd Public bond [2]	2014.01.17	LIBOR(3M) +1.05%	USD 100,000	115,330	-	-	-	-
The 179th Public bond	2018.03.29	4.47%	-	260,000	-	-	-	-
The 180-1st Public bond	2016.04.26	4.35%	-	210,000	-	-	-	-
The 180-2nd Public bond	2021.04.26	4.71%	-	380,000	-	-	-	-
The 181-1st Public bond	2016.08.26	3.94%	-	260,000	-	-	-	-
The 181-2nd Public bond	2018.08.26	3.99%	-	90,000	-	-	-	-
The 181-3rd Public bond	2021.08.26	4.09%	-	250,000	-	-	-	-
The 182-1st Public bond	2016.10.28	4.11%	-	320,000	-	-	-	-
The 182-2nd Public bond	2021.10.28	4.31%	-	100,000	-	-	-	-
The 183-1st Public bond	2016.12.22	3.81%	-	50,000	-	-	-	-
The 183-2nd Public bond	2021.12.22	4.09%	-	90,000	-	-	-	-
The 183-3rd Public bond	2031.12.22	4.27%	-	160,000	-	-	-	-
The 47-2nd Public bond	2011.07.12	-	-	-	-	70,000	-	70,000
The 48th Public bond	2011.02.25	-	-	-	-	-	-	200,000
The 49th Public bond	2011.02.25	-	-	-	USD 175,000	199,308	USD 175,000	204,330
The 50th Public bond	2011.04.28	-	-	-	JPY 7,000,000	97,796	JPY 7,000,000	88,397
The 51-1st Public bond	2011.06.20	-	-	-	USD 95,000	108,196	USD 95,000	110,922
The 51-2nd Public bond	2013.06.20	6.41%	-	70,000	-	70,000	-	70,000
The 52-1st Private bond	2011.08.04	-	-	-	-	100,000	-	100,000
The 52-2nd Public bond	2013.08.04	6.64%	-	100,000	-	100,000	-	100,000
The 53-1stPublic bond	2010.12.01	-	-	-	-	-	-	20,000
The 53-2nd Public bond	2011.12.01	-	-	-	-	181,212	-	180,023
Total				₩ 8,503,269		₩ 7,453,391		₩ 7,743,261
Less: Current portion				(1,077,523)		(1,898,092)		(970,000)
Less: Discount on bonds				(29,702)		(26,654)		(34,158)
Net				₩ 7,396,044		₩ 5,528,645		₩ 6,739,103

[1] As of December 31, 2011, the Company 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 allowed issuance of notes of up to USD 2,000 million. However, the program has been established in, and invalid since 2007.

[2] The Libor (3M) is approximately 0.58% as of December 31, 2011.

Borrowings

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

				2011.12.31		2010.12.31		2010.1.1	
Financial institution	Type	Maturity	Annual interest rates	Foreign currency	Korean won	Foreign currency	Korean won	Foreign currency	Korean won
Kookmin Bank	Informatization Promotion Fund [1]	2013.03.15	4.29%	-	₩ 5,541	-	₩ 13,126	-	-
Shinhan Bank	Informatization Promotion Fund [1]	2015.06.15	4.29%	-	16,383	-	17,812	-	30,218
Export-Import Bank of Korea	Inter-Korean Cooperation Fund [1]	2026.07.11	2.00%	-	6,415	-	6,415	-	6,415
Korea Development Bank	Facility loans [2]	2010.12.13	-	-	-	-	-	USD 40,000	46,704
Bank of Communications	Facility loans [2]	2011.04.02	-	-	-	USD 30,000	34,167	USD 30,000	35,028
Total				-	₩ 28,339		₩ 71,520		₩ 118,365
Less: Current portion					(9,028)		(43,181)		(55,221)
Net					₩ 19,311		₩ 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 of the Company's bonds payable and borrowings as of December 31, 2011, is as follows:

(in millions of Korean won)

	Bonds			Borrowings			
	In local currency	In foreign currency	Sub-total	In local currency	In foreign currency	Sub-total	Total
2012	₩ 720,000	₩ 357,523	₩ 1,077,523	₩ 9,028	-	₩ 9,028	₩ 1,086,551
2013	910,000	981,126	1,891,126	6,848	-	6,848	1,897,974
2014	840,000	807,310	1,647,310	5,002	-	5,002	1,652,312
2015	380,000	461,320	841,320	2,033	-	2,033	843,353
Thereafter	2,700,000	345,990	3,045,990	5,428	-	5,428	3,051,418
Total	₩ 5,550,000	₩ 2,953,269	₩ 8,503,269	₩ 28,339	-	₩ 28,339	₩ 8,531,608

Carrying value and fair value of the Company's bonds payable and borrowings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)

	2011.12.31		2010.12.31		2010.1.1	
Type	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Bonds payable	₩ 8,473,209	₩ 8,538,853	₩ 7,425,831	₩ 7,589,737	₩ 7,708,563	₩ 7,930,514
Long-term borrowings	28,339	27,115	71,520	69,966	118,365	106,788
Total	₩ 8,501,548	₩ 8,565,968	₩ 7,497,351	₩ 7,659,703	₩ 7,826,928	₩ 8,037,302

The fair value of bonds payable and long-term borrowings are calculated by discounting the expected future cash flows at weighted average borrowing rate. The weighted average borrowing rate is approximately 4.86% as of December 31, 2011 (2010.12.31: 4.95%; 2010.1.1: 4.98%).

17. Provisions

Changes in provisions for the years ended December 31, 2011 and 2010, are as follows:

	2011			
(in millions of Korean won)	Litigation	Asset retirement obligation	Others	Total
Beginning	₩ 23,560	₩ 103,930	₩ 28,166	₩ 155,656
Increase	5,377	11,301	66,515	83,193
Usage	(2,500)	(10,334)	(5,858)	(18,692)
Reversal	(936)	(3,285)	-	(4,221)
Ending	25,501	101,612	88,823	215,936
Current portion	25,501	-	88,823	114,324
Non-current portion	-	101,612	-	101,612

	2010			
(in millions of Korean won)	Litigation	Asset retirement obligation	Others	Total
Beginning	₩ 17,011	₩ 98,661	₩ 4,885	₩ 120,557
Increase	9,630	20,704	42,601	72,935
Usage	(2,117)	(10,510)	(12,305)	(24,932)
Reversal	(964)	(4,925)	(7,015)	(12,904)
Ending	23,560	103,930	28,166	155,656
Current portion	23,560	-	28,166	51,726
Non-current portion	-	103,930	-	103,930

18. Post-Employment Benefit Liability

Amounts recognized in the statements of financial position as of December 31, 2011 and 2010, and January 1, 2010, are determined as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Present value of defined benefit obligations	₩ 1,349,700	₩ 1,056,058	₩ 1,173,531
Fair value of plan assets	(953,959)	(813,898)	(1,100,735)
Liabilities	₩ 395,741	₩ 242,160	₩ 72,796

Changes in the defined benefit obligations for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Beginning	₩ 1,056,058	₩ 1,173,531
Current service cost	149,629	128,664
Interest expense	49,309	65,065
Past service cost	-	(38,644)
Benefits paid	(36,075)	(36,710)
Costs on settlements	-	29,966
Changes due to settlements of plan	-	(429,751)
Actuarial losses	130,779	163,937
Ending	₩ 1,349,700	₩ 1,056,058

Changes in the fair value of plan assets for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Beginning	₩ 813,898	₩ 1,100,735
Expected return on plan assets	38,875	61,857
Actuarial gains and losses	2,413	(9,908)
Benefits paid	(21,227)	(24,914)
Employer contributions	120,000	-
Changes due to settlements of plan	-	(313,872)
Ending	₩ 953,959	₩ 813,898

Amounts recognized in the statement of income for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Current service cost	₩ 149,629	₩ 128,664
Interest cost	49,309	65,065
Expected return on plan assets	(38,875)	(61,857)
Past service cost	-	(38,644)
Costs on settlements	-	29,966
Transfer	(4,672)	(7,751)
Total expense	₩ 155,391	₩ 115,443

The principal actuarial assumptions were as follows:

	2011.12.31	2010.12.31	2010.1.1
Discount rate	4.00%	4.80%	5.70%
Expected rate of return	5.50%	4.90%	5.75%
Future salary increases	4.60%	4.10%	3.70%

Details of the plan assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Pension reserve	₩ 953,512	₩ -	₩ -
Severance insurance deposits	447	813,898	1,100,735
Total	₩ 953,959	₩ 813,898	₩ 1,100,735

The actual return on plan assets for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Actual return on plan assets	₩ 41,288	₩ 51,949

Details of adjustments for the differences between initial assumptions and actual figures as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Present value of the defined benefit obligations	₩ 1,349,700	₩ 1,056,058	₩ 1,173,531
Fair value of plan assets	(953,959)	(813,898)	(1,100,735)
Deficit in the plan	395,741	242,160	72,796
Experience adjustments on defined benefit liabilities	(10,998)	(59,773)	-
Experience adjustments on plan assets	2,413	(9,908)	-

19. Commitments and Contingencies

As of December 31, 2011, 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		400,000		-
	Woori Bank		280,000		-
	Hana Bank		150,000		-
	Industrial Bank of Korea		100,000		-
			1,530,000		-
Commercial papers	Korea Exchange Bank		100,000		-
Loan on information and communications fund	Shinhan Bank		16,383		16,383
	Kookmin Bank		22,755		5,541
			39,138		21,924
Collateralized loan on accounts receivable –trade	Kookmin Bank		250,000		68,141
	Shinhan Bank		60,000		13,188
	Woori Bank		60,000		5,740
	Hana Bank		213,000		4,314
	NH Bank		30,000		-
			613,000		91,384
Others	Korea Exchange Bank	USD	1,000	USD	-
	Industrial Bank of Korea	₩	50,000	₩	-
	Korea Exchange Bank	₩	5,000	₩	-
		₩	2,337,138	₩	113,308
		USD	-	USD	-

As of December 31, 2011, guarantees received from financial institutions are as follows:

(in millions of Korean won and thousands of foreign currencies)	Financial institution	Limit		Used amount
Performance guarantee for construction	Seoul Guarantee Insurance	₩	23,026	-
Performance guarantee	Export-Import Bank of Korea	USD	3,835	3,835
		SAR[1]	735	735
		DZD[2]	25,863	25,863
	Korea Software Financial Cooperative	₩	184,093	184,093
Bid guarantee	Korea Software Financial Cooperative	₩	10,202	10,202
Advances received guarantee	Export-Import Bank of Korea	USD	2,925	2,925
		DZD[2]	77,589	77,589
Prepayment guarantee	Korea Software Financial Cooperative	₩	116,895	116,895
Warranties guarantee	Export-Import Bank of Korea	USD	971	971
	Korea Software Financial Cooperative	₩	22,260	25,653
General guarantee	Korea Exchange Bank	₩	23,600	1,930
	Woori Bank	₩	50,000	3,887

	Shinhan Bank	₩	44,550	26,100
	Korea Software Financial Cooperative	₩	5.770	5,770
Bonds payable in foreign currency guarantee	Kookmin Bank	USD	6,866	4,039
	Shinhan Bank	USD	9,877	867
	Korea Exchange Bank	USD	45,000	41,255
	HSBC	USD	40,000	40,000
Guarantee for import letters of credit	Korea Exchange Bank	USD	5,000	-

[1] Saudi Riyal.
[2] Algerian Dinar.

As of December 31, 2011, guarantees provided by the Company for a third party are as follows:

(in millions of Korean won)	Creditor	Limit	Used amount	Period
Eun-haeng 1-area urban environment Improving project union	Kookmin Bank	₩ 2,600	₩ 2,600	2008.04.29~ 2012.09.30
Yeongdeungpo apartment-style factory	Woori Bank	₩ 13,000	₩ 7,578	2011.07.12~ 2013.02.15

As of December 31, 2011, the Company is a defendant in 116 lawsuits with an aggregate amount of ₩27,787 million. As of December 31, 2011, litigation provisions of ₩25,501 million are recorded as liabilities for potential loss in the ordinary course of business. The final outcome of these cases cannot yet be determined as of the report date.

20. Lease

Finance Lease

Details of finance lease assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Acquisition costs	₩ 329,643	₩ 240,748	₩ 215,921
Accumulated depreciation	(121,920)	(118,493)	(117,758)
Net balance	₩ 207,723	₩ 122,255	₩ 98,163

The related depreciation amounted to ₩ 44,015 million (2010: ₩ 22,677 million) for the year ended December 31, 2011.

Details of future minimum lease payments as of December 31, 2011 and 2010, and January 1, 2010, under finance lease contracts are summarized below:

(in millions of Korean won)	2011.12.31		2010.12.31		2010.1.1	
Type	Minimum lease payments	Present Values	Minimum lease payments	Present Values	Minimum lease payments	Present Values
Within one year	₩ 98,829	₩ 73,918	₩ 65,982	₩ 48,985	₩ 59,818	₩ 44,184
From one year to five years	166,057	136,547	114,852	97,389	110,750	93,653
Over five years	33	33	-	-	-	-
Total	₩ 264,919	₩ 210,498	₩ 180,834	₩ 146,374	₩ 170,568	₩ 137,837

Operating Lease

Details of future minimum lease payments as of December 31, 2011 and 2010, and January 1, 2010, under operating lease contracts are summarized below:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Within one year	₩ 48,058	₩ 20,281	₩ 18,336
From one year to five years	155,681	13,119	7,091
Over five years	217,115	-	-
Total	₩ 420,854	₩ 33,400	₩ 25,477

Operating lease expenses incurred for the years ended December 31, 2011 and 2010, amounted to ₩ 37,135 million and ₩ 28,489 million, respectively.

21. Capital Stock

As of December 31, 2011 and 2010, and January 1, 2010, the Company's number of authorized shares is one billion.

	2011.12.31			2010.12.31			2010.1.1		
	Number of outstanding shares	Par value per share *(in Korean won)*	Common stock *(in millions of Korean won)*	Number of outstanding shares	Par value per share *(in Korean won)*	Common stock *(in millions of Korean won)*	Number of outstanding shares	Par value per share *(in 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	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.

22. Retained Earnings

As of December 31, 2011 and 2010, and January 1, 2010, the Company's retained earnings consist of:

	2011.12.31	2010.12.31	2010.1.1
Legal reserve [1]	₩ 782,249	₩ 780,499	₩ 780,499
Voluntary reserves	4,911,362	4,651,362	4,758,012
Unappropriated retained earnings	4,315,353	3,967,310	4,124,456
Total	₩ 10,008,964	₩ 9,399,171	₩ 9,662,967

[1] 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 appropriation of retained earnings for the years ended December 31, 2011 and 2010, is as follows:

(in millions of Korean won)	2011		2010	
Unappropriated retained earnings from prior year	₩ 3,119,115		₩ 2,786,551	
Effects of Korean IFRS adoption	-		67,512	
Actuarial gains and losses	(92,817)		(135,599)	
Net income(loss)	1,289,055		1,248,846	
Unappropriated retained earnings		₩ 4,315,353		₩ 3,967,310
Appropriations of loss on disposal of treasury stock	-		(295)	
Dividend				
(Cash dividend (%):				
Common stock: ₩ 2,000 (40.0%) in 2011, ₩ 2,410 (48.2%) in 2010)	(486,602)		(586,150)	
Legal reserve	-		(1,750)	
Reserve for technology and human resource development	-		(260,000)	

Appropriations of retained earnings		(486,602)		(848,195)
Retained earnings after appropriation		₩ 3,828,751		₩ 3,119,115

23. Other Components of Equity

As of December 31, 2011 and 2010, and January 1, 2010, the Company's other components of equity are as follows:

	2011.12.31	2010.12.31	2010.1.1
Treasury stock	₩ (950,526)	₩ (955,083)	₩ (959,159)
Loss on disposal of treasury stock	-	(295)	(890,650)
Share-based payments	7,455	7,669	3,619
Other	(308,033)	(308,917)	(310,124)
Total	₩ (1,251,104)	₩ (1,256,626)	₩ (2,153,314)

As of December 31, 2011 and 2010, and January 1, 2010, details of treasury stock are as follows:

	2011.12.31	2010.12.31	2010.1.1
Number of shares	17,810,562	17,895,964	17,915,340
Amounts (in millions of Korean won)	₩ 950,526	₩ 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.

24. Share-based Payments

The Company has granted stock options to its executive officers and directors as of December 31, 2011, 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	46,888

Number of expired shares as of December 31, 2011	-	-
Number of allocated shares as of December 31, 2011	40,000	45,749
Number of additional shares related to business performance as of December 31, 2011	3,153	-
Number of shares expected to be exercised	43,153	45,749
Fair value per share (in Korean won)	₩ 12,322	₩ 4,328
Total compensation cost (in Korean won)	₩ 531 million	₩ 343 million
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.

The changes of the number of stock options and a weighted-average exercise prices for the years ended December 31, 2011 and 2010, are as follows:

	2011				
	Beginning	**Expired**	**Exercised[1]**	**Ending**	**Number of shares to be exercised**
4th grant	43,153	-	-	43,153	43,153
KTF-4th	45,749	-	-	45,749	45,749
Total	88,902	-	-	88,902	88,902
Weighted-average exercise prices (in Korean won)	48,468	-	-	48,468	

	2010				
	Beginning	**Expired**	**Exercised[1]**	**Ending**	**Number of shares to be exercised**
2nd grant	3,000	3,000	-	-	-
4th grant	43,153	-	-	43,153	43,153
KTF-2nd	20,570	20,570	-	-	-
KTF-3rd	219,909	35,811	184,098	-	-
KTF-4th	79,200	-	33,451	45,749	45,749
Total	365,832	59,381	217,549	88,902	88,902
Weighted-average exercise prices (in Korean won)	44,754	49,794	41,861	48,468	

[1] Weighted - average price of the stock option exercised during the prior year was ₩ 44,036.

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

	4 th 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 others on the date of the merger.

Other share-based payments as of December 31, 2011, are as follows:

	5 th grant
Grant date	2011.4.29
Grantee	CEOs, inside directors, outside directors, executives
Estimated number of shares granted at grant date	185,338 shares
Estimated number of shares granted as of December 31, 2011	185,338 shares
Vesting conditions	Service condition: 1 year Non-market performance condition: achievement of performance
Fair value per option (in Korean won)	₩ 38,500
Total compensation costs (in Korean won)	₩ 7,136 million
Estimated exercise date (exercise date)	During 2012
Valuation method	Fair value method

Changes of the number of other share-based payments for the years ended December 31, 2011 and 2010, are as follows:

	2011					
	Beginning	Grant	Expired	Exercised[1]	Ending	Number of shares to be exercised
4th grant	142,436	-	11,924	130,512	-	-
5th grant	-	185,338	-	-	185,338	-
Total	142,436	185,338	11,924	130,512	185,338	-

	2010					
	Beginning	Grant	Expired	Exercised[1]	Ending	Number of shares to be exercised
2nd grant	13,345	-	13,345	-	-	-
3rd grant	29,055	-	-	29,055	-	-
4th grant	-	142,436	-	-	142,436	-

KTF-2nd	11,790	-	11,790	-	-	-
Total	54,190	142,436	25,135	29,055	142,436	-

[1] The weighted average price of other share-base payment at the time of exercise during 2011 was ₩ 38,500 (2010: ₩ 47,700).

25. Operating Revenues

Operating revenues for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011		2010	
Sales of goods	₩	4,201,178	₩	3,918,796
Sales of services		15,122,455		15,632,767
Others		843,184		366,815
Total	₩	20,166,817	₩	19,918,378

26. Operating Expenses

Operating expenses for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011		2010	
Salaries and wages	₩	2,386,022	₩	2,284,843
Depreciation		2,561,450		2,810,681
Amortization		276,311		228,682
Commissions		1,485,283		1,355,453
Interconnection charges		1,112,623		1,222,478
Purchase of handsets		4,335,303		4,114,411
Changes of inventories		(79,403)		(61,849)
Sales commission		2,064,802		2,085,269
Utilities		240,708		228,363
Taxes and dues		208,414		223,477
Rent		287,184		264,752
Advertising expenses		165,358		164,468
Research and development expenses		153,131		289,531
Others		2,943,705		2,704,248
Total	₩	18,140,891	₩	17,914,807

Details of employee benefits for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011		2010	
Short-term employee benefits	₩	2,180,863	₩	2,142,415
Post-employment benefits		155,391		115,443

Share-based payment		6,726		6,794
Termination benefits		43,042		20,191
Total	₩	2,386,022	₩	2,284,843

27. Classification of Operating Income

(1) Major items included in calculation of operating income

The Company's operating profit is calculated by deducting operating expenses such as salaries and amortization cost and others, from operating revenue, which includes sales of services and others. Major items and related amounts are included in operating revenue and expenses are described in Notes 25 and 26.

(2) Differences between Korean IFRS and K-GAAP in operating income

In accordance with K-GAAP, gain or loss on disposal of property and equipment and intangible assets, and others are excluded from operating revenue and expenses. But under Korean IFRS, those are included. Therefore, the differences between Korean IFRS and K-GAAP in operating profit are the amounts of gain or loss on disposal of property and equipment and intangible assets and others. Major items and related amounts are as follows:

(in millions of Korean won)	2011		2010	
Operating profit under Korean IFRS	₩	2,025,926	₩	2,003,571
Adjustments:				
Gain or loss on disposal of Property and equipment		(244,506)		58,538
Gain or loss on disposal of intangible assets		(352)		17,057
Dividends from subsidiaries, associates and joint ventures		(41,696)		(49,998)
Gain or loss on disposal of subsidiaries, associates and joint ventures		(214,245)		5,238
Others		118,943		58,300
Total adjustments		(381,856)		89,135
Operating profit under K-GAAP[1]	₩	1,644,070	₩	2,092,706

[1]Above information only reflects the difference in classification and the measurement is in accordance with Korean IFRS. Above operating profits for the year ended December 31, 2010, are not equal the reported operating profits under K-GAAP.

28. Financial Income and Costs

Financial income for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011		2010	
Interest income	₩	131,597	₩	87,803
Foreign currency transaction gain		41,893		19,092
Foreign currency translation gain		5,214		64,902
Gain on valuation of derivatives		63,959		53,838
Others		1,126		160
Total	₩	243,789	₩	225,795

Financial costs for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011		2010	
Interest expenses	₩	461,364	₩	485,634
Foreign currency transaction loss		29,526		21,074
Foreign currency translation loss		84,535		31,447
Loss on settlement of derivatives		26,882		824
Loss on valuation of derivatives		8,931		47,481
Others		199		2,792
Total	₩	611,437	₩	589,252

29. Deferred Income Tax and Income Tax Expense

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2011 and 2010, and January 1, 2010, is as follows:

(in millions of Korean won)	2011.12.31	2010.12.31	2010.1.1
Deferred tax assets			
Deferred tax assets to be recovered after more than 12 months	₩ 223,284	₩ 261,387	₩ 254,673
Deferred tax assets to be recovered within 12 months	689,854	539,699	669,958
	913,138	801,086	924,631
Deferred tax liabilities			
Deferred tax liability to be recovered after more than 12 months	(189)	(327)	(5,524)
Deferred tax liability to b recovered within 12 months	(445,059)	(263,417)	(369,411)
	(445,248)	(263,744)	(374,935)
Deferred tax assets (liabilities), net	₩ 467,890	₩ 537,342	₩ 549,696

The gross movements on the deferred income tax account for the years ended December 31, 2011 and 2010, are calculated as follows:

(in millions of Korean won)	2011	2010
Beginning	₩ 537,342	₩ 549,696
Charged/(credited) to the statement of income	(104,649)	(60,725)
Charged/(credited) to other comprehensive income	35,197	48,371
Ending	₩ 467,890	₩ 537,342

The movement in deferred income tax assets and liabilities during the year, without taking in to consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(in millions of Korean won)	2011			
	Beginning	Statement of income	Other comprehensive income	Ending
Deferred tax liabilities				
Derivative financial assets	₩ (30,913)	₩ (5,616)	₩ (829)	₩ (37,358)
Investment in joint venture and associates	(42,977)	27,698	309	(14,970)
Depreciation	(9,789)	(81,489)	-	(91,278)
Deposits for severance benefits	(175,888)	(54,970)	-	(230,858)
Accrued income	(280)	91	-	(189)
Reserve for technology and human resource development	-	(62,920)	-	(62,920)
Others	(3,897)	(3,778)	-	(7,675)
	(263,744)	(180,984)	(520)	(445,248)
Deferred tax assets				
Allowance for doubtful accounts	119,916	(13,641)	-	106,275
Available-for-sale financial assets	6,264	690	169	7,123
Contribution for construction	31,188	(1,887)	-	29,301
Accrued expenses	25,863	(8,369)	-	17,494
Provisions	17,841	27,692	-	45,533
Defined benefit liabilities	156,952	53,638	35,548	246,138
Withholding of facilities expenses	9,283	106	-	9,389
Accrued payroll expenses	49,097	(11,071)	-	38,026
Deduction of instalment receivables	72,171	6,709	-	78,880
Present value discount	23,968	14,584	-	38,552
Assets retirement obligation	15,178	957	-	16,135
Gain or loss foreign currency translation	81,197	16,455	-	97,652
Deferred revenue	53,342	(3,577)	-	49,765
Real-estate sales	2,940	3,516	-	6,456
Tax credit carryforwards	88,794	(6,748)	-	82,046
Others	47,092	(2,719)	-	44,373

	801,086	76,335	35,717	913,138
Net balance	₩ 537,342	₩ (104,649)	₩ 35,197	₩ (467,890)

(in millions of Korean won)	2010			
	Beginning	Statement of income	Other comprehensive income	Ending
Deferred tax liabilities				
Derivative financial assets	₩ (39,720)	₩ (1,371)	₩ 10,178	₩ (30,913)
Investment in joint venture and associates	(42,977)	-	-	(42,977)
Depreciation	(43,158)	33,369	-	(9,789)
Deposits for severance benefits	(242,156)	66,268	-	(175,888)
Accrued income	(1,298)	1,018	-	(280)
Others	(5,626)	1,729	-	(3,897)
	(374,935)	101,013	10,178	(263,744)
Deferred tax assets				
Allowance for doubtful accounts	113,648	6,268	-	119,916
Inventory valuation	10,166	(10,166)	-	-
Available-for-sale financial assets	5,662	655	(53)	6,264
Contribution for construction	39,296	(8,108)	-	31,188
Accrued expenses	28,573	(2,710)	-	25,863
Provisions	11,953	5,888	-	17,841
Defined benefit liabilities	192,228	(73,522)	38,246	156,952
Withholding of facilities expenses	9,609	(326)	-	9,283
Accrued payroll expenses	36,891	12,206	-	49,097
Deduction of instalment receivables	34,603	37,568	-	72,171
Present value discount	8,923	15,045	-	23,968
Assets retirement obligation	13,607	1,571	-	15,178
Gain or loss foreign currency translation	87,008	(5,811)	-	81,197
Deferred revenue	58,648	(5,306)	-	53,342
Real-estate sales	48,327	(45,387)	-	2,940
Tax credit carryforwards	169,122	(80,328)	-	88,794
Others	56,367	(9,275)	-	47,092
	924,631	(161,738)	38,193	801,086
Net balance	₩ 549,696	₩ (60,725)	₩ 48,371	₩ 537,342

Deferred tax liabilities relating to withholding tax of undivided profit of certain subsidiaries, amounting to ₩ 3,884 million as of December 31, 2011, (2010: ₩ 3,657 million), are not recognized. This undivided profit is permanently reinvested, and the total of unrecognized temporary differences at the end of the reporting date is ₩ 49,302 million (2010: ₩ 50,444 million)

The tax impact directly to equity as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	2011.12.31 Before recognition	Tax effect	After recognition	2010.12.31 Before recognition	Tax effect	After recognition	2010.1.1 Before recognition	Tax effect	After recognition
Available-for-sale valuation gain (loss)	₩ 1,947	₩ (471)	₩ 1,476	₩ 2,908	₩ (640)	₩ 2,268	₩ 2,669	₩ (587)	₩ 2,082
Hedge instruments valuation gain (loss)	(39,787)	9,628	(30,159)	(69,889)	10,457	(58,432)	(23,558)	279	(23,279)
Actuarial gain (loss)	(302,210)	73,794	(228,416)	(173,845)	38,246	(135,599)	-	-	-
Others	(318,483)	356	(318,127)	(318,483)	47	(318,436)	(318,483)	47	(318,436)
Total	₩ (658,533)	₩ 83,307	₩ (575,226)	₩ (558,309)	₩ 48,110	₩ (510,199)	₩ (339,372)	₩ (261)	₩ (339,633)

Details of income tax expense for the years ended December 31, 2011 and 2010, are calculated as follows:

(in millions of Korean won)	2011	2010
Current income tax expenses	₩ 264,574	₩ 330,543
Impact of change in temporary difference	117,556	60,725
Impact of change in tax rate[1]	(12,907)	-
Total income tax expense	₩ 369,223	₩ 391,268

[1] During the year, as a result of the change in the Korean corporate tax rate from 22% to 24.2% that was enacted on December 31, 2011, the relevant deferred tax balances have been re-measured. Deferred tax expected to reverse after December 31, 2011, has been measured using the effective rate (24.2%) that will apply for the future periods.

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the entities as follows:

(in millions of Korean won)	2011	2010
Profit before continuing operations before income tax expenses	₩ 1,658,278	₩ 1,640,114
Expected tax expense at statutory tax rate	401,277	396,881
Tax effects of		
Income not subject to tax	(389,551)	(4,830)
Expenses not deductible for tax purposes	395,062	30,376
Tax credit carryforwards and deductions	(153,925)	(85,333)
Changes in unrealizable deferred tax assets	7,668	855
Deferred tax effects due to changes in tax rates	85,082	24,870
Others	23,610	28,449
Income tax expenses for continuing operations	₩ 369,223	₩ 391,268
Average effective tax rate	22.3%	23.9%

30. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common stocks in issue during the year, excluding common stocks purchased by the Company and held as treasury stock (Note 23).

Basic earnings per share for the years ended December 31, 2011 and 2010, are calculated as follows:

	2011		2010	
Net income attributable to common stock(in millions of Korean won)	₩	1,289,055	₩	1,248,846
Weighted average number of common stock outstanding		243,268,052		243,207,149
Basic earnings per share (in Korean won)	₩	5,299	₩	5,135

Diluted earnings per share is calculated by adjusting the weighted average number of common stocks outstanding to assume conversion of all dilutive potential common stocks. The Company has dilutive potential common stocks from stock options and other share-based payments.

Diluted earnings per share for the years ended December 31, 2011 and 2010, is calculated as follows:

	2011		2010	
Net income attributable to common stock(in millions of Korean won)	₩	1,289,055	₩	1,248,846
Adjusted net income attributable to common stock(in millions of Korean won)		1,289,055		1,248,846
Number of dilutive potential common shares outstanding		32,960		18,081
Weighted-average number of common shares outstanding and dilutive common shares		243,301,012		243,225,230
Diluted earnings per share (in Korean won)	₩	5,298	₩	5,135

Certain stock options and other share-based payments have no dilutive effect and are excluded from the calculation of diluted earnings per share.

31. Dividends

The dividends paid by the Company in 2011 and 2010 were ₩ 586,150 million (₩ 2,410 per share) and ₩ 486,393 million (₩ 2,000 per share), respectively. A dividend in respect of the year ended December 31, 2011, of ₩ 2,000 per share, amounting to a total dividend of ₩ 486,602 million, is to be proposed at the shareholders' meeting on March 16, 2012. These financial statements do not reflect this dividend payable.

32. Cash Generated from Operations

Cash flows from operating activities for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)		2011		2010
1. Profit for the period	₩	1,289,055	₩	1,248,846
2. Adjustments for:				
Income tax expenses		369,223		391,268
Interest income		(131,597)		(87,803)
Interest expense		461,364		485,634
Depreciation		2,580,847		2,871,956
Amortization of intangible assets		279,781		246,858
Provision for post-employment benefits		203,105		143,385
Bad debt expenses		125,295		151,390
Losses(gains) on disposal of property and equipment		(214,245)		5,238
Impairment on property and equipment		17,136		9,945
Losses(gains) on disposal of subsidiaries, associates and joint ventures		(244,506)		58,538
Contribution of provisions		9,666		57,958
Reversal of provisions		(4,221)		(12,890)
Foreign currency translation losses(gains)		79,321		(33,455)
Losses(gains) on valuation of derivatives, net		(28,146)		(5,533)
Deferred revenue recognition		(168,071)		(189,977)
Others		4,640		77,452
3. Changes in operating assets and liabilities				
Increase in trade receivables		(1,465,507)		(988,507)
Increase in other receivables		(54,940)		(897)
Decrease(Increase) in other assets		3,009		(118,145)
Decrease in inventories		58,111		60,727
Increase(decrease) in trade payables		122,164		(1,624)
Increase(decrease) in other payables		3,656		(336,525)
Decrease in other liabilities		(45,993)		(39,319)
Increase(decrease) in accrued provisions		(12,087)		265,573
Increase in deferred revenue		196,344		219,705
Increase in contribution on plan assets		(120,000)		-
Post-employment benefits paid		(166,483)		(944,499)
4. Cash generated from operations(1+2+3)	₩	3,146,921	₩	3,535,299

Significant transactions not affecting cash flows for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Reclassification of borrowings	₩ 1,080,549	₩ 1,920,773
Transfer of construction-in-progress to property and equipment	3,165,808	2,383,898

33. Related party transactions

The list of subsidiaries of the Company as of December 31, 2011, is as follows:

Type of control	Subsidiaries
Direct control	KT Hitel, KT Networks Corporation, KT Powertel, KT Linkus Co., Telecop Service Co., 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 Music, KT Innotz Inc., KT Estate Inc., 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., Korea Telecom Japan Co., Ltd., Korea Telecom China Co., Ltd., KTSC Investment Management B.V., PT. KT Indonesia, KT Skylife Co., Ltd. (formerly "Korea Digital Satellite Broadcasting Co., Ltd.), NEXR Co., Ltd, H&C Network, KTSB Data service, KC smart service Co.,Ltd., KT Cloudware Corporation, Enswers Inc, OIC Korea Co.,Ltd.
Indirect control through KT Estate	KT AMC
Indirect control through KT Hitel	KT Commerce Inc.
Indirect control through KT Capital	KTC Media Contents Fund 1, BC card co., Ltd., VP Inc., U Payment Co., Ltd.
Indirect control through KT Skylife	Korea HD Broadcasting Corp.
Indirect control through H&C Network	INITECH Co., Ltd., Pay N Mobile Co., Ltd., InitechSmartro Holdings Co., Ltd, Smartro Co.Ltd.
Indirect control through KTSC Investment Management B.V.	East Telecom and Super iMax
Indirect control through Enswers Inc	Soompi Meidia, LLC, Revlix Inc, Soompi USA, LLC

The related receivables and payables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	2011.12.31		2010.12.31		2010.1.1	
(in millions of Korean won)	Receivables	Payables	Receivables	Payables	Receivables	Payables
Subsidiaries	₩ 72,304	₩ 443,926	₩ 36,219	₩ 450,978	₩ 63,105	₩ 444,744
Associates	5,592	368,798	15,544	334,144	11,156	194,209
Joint ventures	231	94,542	63	74,296	-	-
Total	₩ 78,127	₩ 907,266	₩ 51,826	₩ 859,418	₩ 74,261	₩ 638,953

Significant transactions with related parties for the years ended December 31, 2011 and 2010, are as follows:

	2011		2010	
(in millions of Korean won)	Sales	Purchases	Sales	Purchases
Subsidiaries	₩ 1,021,012	₩ 1,675,033	₩ 804,699	₩ 1,293,554
Associates	59,386	827,465	164,981	910,030
Joint ventures	4,755	47,770	14,617	48,769
Total	₩ 1,085,153	₩ 2,550,268	₩ 984,297	₩ 2,252,353

Key management compensation for the years ended December 31, 2011 and 2010, consists of:

(in millions of Korean won)	2011	2010
Salaries and other short-term benefits	₩ 3,153	₩ 3,011
Provision for severance benefits	270	150
Compensation expenses	1,990	2,147
Total	₩ 5,413	₩ 5,308

34. Financial risk management

34.1 Financial risk factors

The Company's activities expose it to a variety of financial risks such as changes in foreign exchange rates, interest rates and market prices arising from future commercial transactions and recognized assets and liabilities. The Company's financial risk management is focused on controlling these risks in its operating and financing activities. The Company uses derivatives to hedge certain financial risk exposures such as fair value risk and cash flow risk.

The Company's financial policy is set up in the long-term perspective and annually reported to the Board of Directors. The financial risk management is carried out by the Value Management Office, which identifies, evaluates and hedges financial risks. The treasury department in the Value Management Office considers various market conditions to estimate the effect from the market changes.

(1) Market risk

The Company's market risk management focuses on controlling the extent of exposure to the risk in order to minimize revenue volatility. Market risk is a risk that decreases value or profit of the Company's portfolio due to changes in market interest rate, foreign exchange rate and other factors.

i) Sensitivity analysis

Sensitivity analysis is performed for each type of market risk to which the Company is exposed. Reasonably possible changes in the relevant risk variable such as prevailing market interest rates, currency rates, equity prices or commodity prices are estimated and if the rate of change in the underlying risk variable is stable, the Company does not alter the chosen reasonably possible change in the risk variable. The reasonably possible change does not include remote or 'worst case' scenarios or 'stress tests'.

ii) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from operating, investing and financing activities. Foreign exchange risk is managed within the range of the possible effect on the Company's cash flows. Foreign exchange risk not affecting the Company's cash flows is not hedged but can be hedged at a particular situation.

As of December 31, 2011 and 2010, if the foreign exchange rate had strengthened/weakened by 10% with all other variables held constant, the effects on profit before income tax and shareholders' equity would have been as follows:

(in millions of Korean won)	**Fluctuation of foreign exchange rate**	**Income before tax**	**Shareholders' equity**
2011.12.31	+ 10%	₩ (57,343)	₩ (50,640)
	- 10%	57,343	50,640
2010.12.31	+ 10%	(65,094)	(50,194)
	- 10%	65,094	50,194

The above analysis is a simple sensitivity analysis which assumes that all the variables other than foreign exchange rates are held constant. Therefore, the analysis does not reflect any correlation between foreign exchange rates and other variables, nor the management's decision to decrease the risk.

Details of foreign assets and liabilities of the Company as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	2011.12.31		**2010.12.31**		**2010.1.1**	
(in thousands of foreign currencies)	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial assets**
USD	157,139	2,247,204	147,615	2,400,969	174,273	2,318,253
SDR	1,160	744	5,721	4,256	15,225	8,566
JPY	59,666	35,008,910	3,587	19,501,426	-	19,500,000
GBP	6	108	6	131	-	-
EUR	1,239	1,602	632	1,065	98	103
DZD	18,714	-	20,339	-	-	-
AUD	-	-	-	-	13	-

iii) Price risk

As of December 31, 2011, the Company is exposed to equity securities price risk because the securities held by the Company are traded in active markets. If the market prices had increased/decreased by 10% with all other variables held constant, the effects on profit before income tax and shareholders' equity would have been as follows:

(in millions of Korean won)	**Fluctuation of price**	**Income before tax**	**Shareholders' equity**
2011.12.31	+ 10%	₩ -	₩ 863
	- 10%	-	(863)
2010.12.31	+ 10%	-	1,126
	- 10%	-	(1,126)

The analysis is based on the assumption that the equity index had increased/decreased by 10% with all other variables held constant and all the Company's marketable equity instruments had moved according to the historical correlation with the index. Gain or loss on equity securities classified as available-for-sale financial assets can increase or decrease shareholders' equity.

iv) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from liabilities in foreign currency such as foreign currency bonds payable. Bonds payable in foreign currency issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by swap transactions. Bonds payable and borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company sets the policy and operates to minimize the uncertainty of the changes in interest rates and financial costs.

As of December 31, 2011 and 2010, if the market interest rate had increased/decreased by 100bp with other variables held constant, the effects on profit before income tax and shareholders' equity would be as follows:

(in millions of Korean won)	**Fluctuation of interest rate**	**Income before tax**	**Shareholders' equity**
2011.12.31	+ 100 bp	₩ 731	₩ 1,146
	- 100 bp	(15,324)	(15,911)
2010.12.31	+ 100 bp	1,303	(1,655)
	- 100 bp	(19,256)	(16,566)

The above analysis is a simple sensitivity analysis which assumes that all the variables other than market interest rates are held constant. Therefore, the analysis does not reflect any correlation between market interest rates and other variables, nor the management's decision to decrease the risk.

(2) Credit risk

Credit risk is managed on the Company basis with the purpose of basis for minimizing financial loss. Credit risk arises from the normal transactions and investing activities, where clients or other party fails to discharge an obligation on contract conditions. To manage credit risk, the Company considers the counterparty's credit based on the counterparty's financial conditions, default history and other important factors.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as outstanding receivables. To minimize such risk, only the financial institutions with strong credit ratings are accepted.

As of December 31, 2011 and 2010, and January 1, 2010, maximum exposure to credit risk by financial instrument without taking account of any collateral held is as follows:

	2011.12.31	2010.12.31	2010.1.1
Cash equivalents(except for cash on hand)	₩ 789,959	₩ 901,145	₩ 1,296,701
Trade and other receivables	6,440,216	4,982,657	4,200,958
Other financial assets			
Derivate financial assets	160,283	247,794	308,037
Financial instruments	7,999	16,473	255,584
Available- for-sale financial assets	3,000	-	1,200
Financial guarantee contracts[1]	15,600	2,600	2,600
Total	₩ 7,417,057	₩ 6,150,669	₩ 6,065,080

[1] Total amounts guaranteed by the Company according to the guarantee contracts.

(3) Liquidity risk

The Company manages its liquidity risk by liquidity strategy and plans. The Company considers the maturity of financial assets and financial liabilities and the estimated cash flows from operations.

The table below analyzes the Company's liabilities into relevant maturity groups based on the remaining period at the report date to the contractual maturity date. These amounts are contractual undiscounted cash flows.

	2011.12.31			
(in millions of Korean won)	Less than 1 year	1-5 years	More than 5 years	Total
Trade and other payables	₩ 4,452,208	₩ 624,195	₩ 21,975	₩ 5,098,378
Borrowings(including bonds payable)	1,445,108	6,575,894	2,139,458	10,160,460
Financial guarantee contracts[1]	15,600	-	-	15,600

Total	₩ 5,912,916	₩ 7,200,089	₩ 2,161,433	₩ 15,274,438

	2010.12.31			
(in millions of Korean won)	**Less than 1 year**	**1-5 years**	**More than 5 years**	**Total**
Trade and other payables	₩ 4,883,402	₩ 297,881	₩ 25,192	₩ 5,206,475
Borrowings(including bonds payable)	2,284,572	5,390,459	1,061,517	8,736,548
Financial guarantee contracts[1]	2,600	-	-	2,600
Total	₩ 7,170,574	₩ 5,688,340	₩ 1,086,709	₩ 13,945,623

[1] Total amounts guaranteed by the Company according to the guarantee contracts. Cash flow from financial guarantee contracts is classified in the maturity group in the earliest period when the financial guarantee contracts can be executed.

As of December 31, 2011 and 2010, cash outflow and inflow of derivatives settled gross or net are undiscounted contractual cash flow and can differ from the amount in the financial statements.

	2011.12.31			
(in millions of Korean won)	**Less than 1 year**	**1-5 years**	**More than 5 years**	**Total**
Outflows	₩ 406,087	₩ 1,908,335	₩ 42,541	₩ 2,356,963
Inflows	430,479	1,997,531	50,053	2,478,063

	2010.12.31			
(in millions of Korean won)	**Less than 1 year**	**1-5 years**	**More than 5 years**	**Total**
Outflows	₩ 607,878	₩ 1,590,493	₩ 43,805	₩ 2,242,176
Inflows	748,940	1,660,349	50,909	2,460,198

34.2 Disclosure of Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company's capital structure consists of liabilities including borrowings, cash and cash equivalents, and shareholders' equity. The treasury department monitors the Company's capital structure and considers cost of capital and risks related each capital component.

The Company's debt ratios as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Total liabilities	₩ 14,719,674	₩ 13,253,978	₩ 13,948,500
Total equity	11,733,933	11,091,137	10,493,212
Debt ratio	125%	120%	133%

The Company manages capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The Company's gearing ratios as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won, %)	**2011.12.31**	**2010.12.31**	**2010.1.1**
Total borrowings	₩ 8,501,548	₩ 7,497,351	₩ 7,826,928
Less: cash and cash equivalents	(790,107)	(901,308)	(1,297,355)
Net debt	7,711,441	6,596,043	6,529,573
Total equity	11,733,933	11,091,137	10,493,212
Total capital	19,445,374	17,687,180	17,022,785
Gearing ratio	40%	37%	38%

34.3 Fair value estimation

The table below analyzes financial instruments carried at fair value through the valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Company's assets and liabilities that are measured at fair value as of December 31, 2011 and 2010, and January 1, 2010.

	2011.12.31			
(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Marketable equity securities	₩ 8,625	₩ -	₩ -	₩ 8,625
Derivative financial assets	-	160,283	-	160,283
Total	₩ 8,625	₩ 160,283	₩ -	₩ 168,908
Liabilities				
Derivative financial liabilities	₩ -	₩ 6,076	₩ -	₩ 6,076
Total	₩ -	₩ 6,076	₩ -	₩ 6,076

	2010.12.31			
(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Marketable equity securities	₩ 11,269	₩ -	₩ -	₩ 11,269
Derivative financial assets	-	247,794	-	247,794
Total	₩ 11,269	₩ 247,794	₩ -	₩ 259,063
Liabilities				
Derivative financial liabilities	₩ -	₩ 19,837	₩ -	₩ 19,837
Hedged bonds payable	-	181,244	-	181,244
Total	₩ -	₩ 201,081	₩ -	₩ 201,081

	2010.1.1			
(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Marketable equity securities	₩ 10,132	₩ -	₩ -	₩ 10,132
Derivative financial assets	-	308,037	-	308,037
Total	₩ 10,132	₩ 308,037	₩ -	₩ 318,169
Liabilities				
Derivative financial liabilities	₩ -	₩ 8,456	₩ -	₩ 8,456
Hedged bonds payable	-	180,023	-	180,023
Total	₩ -	₩ 188,479	₩ -	₩ 188,479

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service, or regulatory agency, and those represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the bid price. These instruments are included in level 1. Instruments included in level 1 comprise listed equity investments classified as available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

The details of equity securities measured at historical cost as of December 31 2011 and 2010, and January 1, 2010, are as follows.

(in millions of Korean won)	2011.12.31		2010.12.31		2010.1.1	
SBSKTSPC[1]	₩	25,000	₩	25,000	₩	15,000
MBCKTSPC[1]		11,000		11,000		11,000
KBSKTSPC[1]		11,000		-		-
IBK-AUCTUS Green Growth Private Equity Fund[1]		10,340		7,000		100
Others		36,304		27,434		22,832
Total	₩	93,644	₩	70,434	₩	48,932

[1] The range of estimated cash flows is significant and the probabilities of the various estimates cannot be reasonably assessed and therefore these instruments are measured at cost.

The Company does not have any plans to dispose of the above-mentioned equities instruments in the near future. These instruments will be measured at fair value when the Company can develop a reliable estimate of the fair value.

35. Subsequent Events

Subsequent to December 31, 2011, the Company has issued the unsecured public bonds payable, as follows:

Bond	Issue date	Par value	Interest rate	Maturity date	Repayment method
Regulation S.Bond	2012.1.20	USD 350,000 thousand	3.875%	2017.1.20	Lump sum repayment at maturity

Subsequent to December 31, 2011, the additional capital infusion was made by the Company as follows:

Subsidiary	Date	Number of shares	Amount	Purpose
KT Capital Co.,Ltd.	2012.01.25	4,712,103 common shares	₩ 41,000 million	To strengthen its financial stability

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, 2011. 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, 2011, 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, 2011, and we did not review management's assessment of its IACS subsequent to December 31, 2011. 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
March 8, 2012

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, 2011.

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, 2011, in all material respects, in accordance with the IACS Framework.

February 16, 2012

Internal Accounting Control Officer Thomas Bum-Joon Kim

Chief Executive Officer Suk-Chae Lee

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