

ANNUAL FINANCIAL REPORT OF KT CORPORATION

(From January 1, 2014 to December 31, 2014)

30 April 2015

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

Dear Sir/Madam,

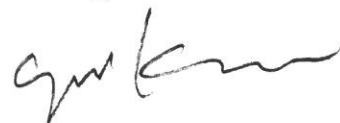
I, Youngwoo Kim, Vice President and Head of IR of KT Corporation, as the person responsible for the submission of the annual financial report pursuant to Section 18.4.3A of the Listing Rules and Section 4.1.3R of the Disclosure and Transparency Rules, have reviewed the information contained herein and 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 Corporation 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 Corporation 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 Corporation 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: Youngwoo Kim
Position: Vice President
Head of IR

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(EXHIBIT 99-1 : CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED
DECEMBER 31, 2014 AND 2013 AND INDEPENDENT AUDITORS' REPORT)

I. HISTORY AND DEVELOPMENT OF THE COMPANY

In 1981, the Government established us under the Korea Telecom Act to operate the telecommunications services business that it previously directly operated. Under the Korea Telecom Act and the Government-Invested Enterprises Management Basic Act, the Government exercised substantial control over our business and affairs. Effective October 1, 1997, the Korea Telecom Act was repealed and the Government-Invested Enterprises Management Basic Act became inapplicable to us. As a result, we became a corporation under the Commercial Code, and our corporate organization and shareholders' rights were governed by the Privatization Law and the Commercial Code. Among other things, we began to exercise greater autonomy in setting our annual budget and making investments in the telecommunications industry, and our shareholders began electing our directors, who had previously been appointed by the Government under the Korea Telecom Act.

Prior to 1993, the Government owned all of the issued shares of our common stock. From 1993 through May 2002, the Government disposed of all of its equity interest in us, and the Privatization Law ceased to apply to us in August 2002. We amended our legal name from Korea Telecom Corp. to KT Corporation in March 2002.

Before December 1991, we were the sole provider of local, domestic long-distance and international long-distance telephone services in Korea. The Government began to introduce competition in the telecommunications services market in the early 1990's. As a result, including ourselves, there are currently three local telephone service providers, five domestic long-distance carriers and numerous international long-distance carriers (including voice resellers) in Korea. In addition, the Government awarded licenses to several service providers to promote competition in other telecommunications business areas such as mobile telephone services and data network services. In June 2009, KTF, a subsidiary providing mobile telephone services, merged into KT Corporation, with KT Corporation surviving the merger, with the objective of maximizing management efficiencies of our fixed-line and mobile telecommunications operations as well as more effectively responding to the convergence trends in the telecommunications industry.

Our legal and commercial name is KT Corporation. Our principal executive offices are located at KT Gwanghwamun Building East, 33, Jong-ro 3-gil, Jongno-gu, 110-130, Seoul, Korea and our telephone number is (8231) 727-0114.

II. BUSINESS OVERVIEW

We are the leading telecommunications service provider in Korea and one of the largest and most advanced in Asia. As an integrated telecommunications service provider, our principal services include:

- mobile voice and data telecommunications services based on 3G W-CDMA technology and 4G LTE technology;
- fixed-line services, which include:
 - telephone services, including local, domestic long-distance and international long-distance fixed-line and VoIP telephone services and interconnection services to other telecommunications companies;
 - broadband Internet access service and other Internet-related services, including IPTV services; and
 - data communication service, including leased line service and dedicated broadband internet connection service to institutional customers;
- credit card processing and other financial services through KT Capital Co., Ltd. and BC Card Co., Ltd.; and
- various other services, including satellite service and information technology, real estate business, satellite TV service, media contents business and network services such as cloud computing services.

We also offered automobile rental services through KT Rental Co., Ltd. An agreement to sell KT Rental to the Lotte Group for approximately ₩1.02 trillion (with estimated proceeds to KT Corporation being approximately ₩772 billion) was entered into in March 2015, and the sale is expected to be completed in May 2015.

Leveraging on our dominant position in the fixed-line telephone services market and our established customer base in Korea, we have successfully pursued new growth opportunities during the past decade and obtained strong market positions in each of our principal lines of business. In particular:

- in the mobile services market in Korea, we achieved a market share of 30.3% with approximately 17.3 million subscribers as of December 31, 2014;
- in the fixed-line telephone services market in Korea, we continue to be the dominant provider with approximately 23.9 million installed lines, of which 13.7 million lines were in service as of December 31, 2014. As of such date, our market share of the local market was 81.0% and our market share of the domestic long-distance market was 78.9%;
- we are Korea's largest broadband Internet access provider with 8.1 million subscribers as of December 31, 2014, representing a market share of 42.3%; and
- we are also the leading provider of data communication services in Korea.

For the year ended December 31, 2014, our operating revenues were ₩23,727 billion, our loss for the period was ₩941 billion and our basic loss per share was ₩4,215. As of December 31, 2014, our total assets were ₩33,799 billion, total liabilities were ₩22,012 billion and total equity was ₩11,788 billion.

Business Strategy

We believe the telecommunications market in Korea is nearing saturation, despite certain areas of growth remaining due to Korea's growing economy, consumers' willingness to adopt new technologies, relatively high income and a relatively large middle class. To maintain our competitiveness, we believe we need to pursue

growth in other areas, while maintaining our strength in existing businesses. In order to enhance the management efficiencies of our mobile and fixed-line telecommunications operations as well as more effectively respond to the convergence trends in the telecommunications industry, KTF merged into KT Corporation in June 2009, with KT Corporation surviving the merger. In 2014, we restructured our organization into five business groups, the Marketing Group, the Customer Group, the Enterprise Operations Group, the Global Business Group and the Future Convergence Business Group, so that we may achieve higher synergies, more effectively address differing needs of our customer segments, as well as strengthen our competitiveness and discover new growth opportunities. As part of our efforts to improve our operational efficiencies, we transferred all operations relating to fixed-line sales activities (including on-site sales, line activation, after service, and customer center operations) to our subsidiaries in 2014.

We also established subsidiaries to oversee our satellite and real estate operations, and expanded the number of specialized employees for each business, to further strengthen such operations and to pursue strategic alliances with other global corporates. In May 2014, we announced our “GiGAtopia” corporate vision, which seeks to converge ultra-fast broadband services to our smartphone services, and launched our olleh GiGA Internet service, which provides transmission speed of up to 1 Gbps, in October 2014 (“olleh GiGA Internet Service”). We also seek to provide other services that converge information & communication technology with other fields such as energy, security, media, healthcare and transportation, utilizing our fixed-line and wireless infrastructure based on our olleh GiGA Internet Services and LTE mobile services. By promoting our convergence services, we aim to contribute in changing the current subsidy-based Korean telecommunication market competition to one based on innovative technology, products and enhanced services. Consistent with our overall goals, we aim to pursue the following strategy for our business groups:

- **Marketing Group.** Through our Marketing Group, we aim to expand our telecommunication and convergence operations by (i) improving our fixed-line and wireless telecommunication market shares and average revenue per user, (ii) developing business strategies and plans specifically related to telecommunications and convergence, (iii) strengthening our competitiveness over products, customer service and other related services and (iv) developing and executing efficient marketing strategies. We also focus on expanding our wireless data communication business to meet the rising demand for broadband Internet access using advanced wireless data communications devices such as smartphones. We are working closely with handset manufacturers to expand our offerings of smartphones and handsets designed to promote convergence of fixed-line and mobile telecommunications services, as well as promote development of various applications for such devices.

In line with this strategy, we began offering Apple’s iPhone for the first time in Korea in November 2009 and have expanded our offerings of smartphones from other mobile handset manufacturers. We believe that our WiBro network, which enables two-way wireless broadband Internet access to portable computers, mobile phones and other portable devices, as well as our extensive wireless LAN networks installed nationwide, enable our subscribers to maximize effective usage of their smartphones. We plan to take advantage of our industry-leading network infrastructure to attract more customers as this market further develops. In addition, we aim to further enhance our position in the mobile telecommunications market by leveraging on our strong brand, nationwide marketing network, competitive data usage rates, call centers dedicated to smartphone users, creative marketing strategies that address our potential customers’ needs and ability to bundle various mobile and fixed-line services. We also plan to further expand our contents and applications for smartphone users and mobile data users by cooperating with application developers in Korea and abroad, in order to further solidify our position as a leader in the convergence market.

In 2010, we launched a new brand “olleh” to promote our bundled products, which include broadband Internet access service, IPTV service, Internet phone service and fixed-line telephone service. We aim to differentiate ourselves from our competitors by providing broadband Internet access service using high-speed fiber-to-the-home (or FTTH) connection and offering Internet phone service with value-added features such as video communication, short message service and phone banking. We also began offering real-time broadcasting service on our IPTV service starting in November 2008.

We believe that convergence of fixed-line and mobile communications technologies provides a competitive advantage to us because we have the technological know-how and experience to design and construct a unified delivery platform for a new generation of value-added services. We plan to make such platform more readily available to others so that they may create additional

contents and convenience solutions such as electronic commerce and digital transaction applications that can be utilized anywhere using various media and communications devices.

- **Customer Group.** Through our Customer Group, we aim to improve our marketing and customer service efforts for all of our products and services by (i) planning and executing strategy for each product that we offer and our marketing efforts, (ii) contributing to expanding our market share by strengthening our marketing and customer service efforts, and (iii) maximizing customer satisfaction by providing high quality customer service.
- **Enterprise Operations Group.** Through our Enterprise Operations Group, we aim to provide our corporate, small- and medium-sized enterprise and government agency customers with one-stop solution services, including designing data communications and information technology infrastructure and overseeing their day-to-day operations with the objective of achieving operational efficiencies and cost savings, as well as establishing and executing business plans for our global operations. Furthermore, in conjunction with our Future Convergence Business Group, we seek to expand our operations in the fields of smart energy, unified security systems and oversized data management.
- **Global Business Group.** Through our Global Business Group, we are expanding our global operations by designing, developing and optimizing mobile virtual network operation, cloud computing, internet data centers and other global network services, in conjunction with overseas network operators and other global telecommunications companies. To this end, we have established or acquired overseas branches or subsidiaries in target countries to design and construct telecommunication networks and develop information & communication technology convergence products, as well as seeking further overseas opportunities working with quality Korean small- and medium-sized enterprises.
- **Future Convergence Business Group.** Due to the saturation within the Korean telecommunication market and limitations on growth in the traditional telecommunications services market, through our Future Convergence Strategy Group, we aim to concentrate our existing business capabilities in achieving new synergies by converging information & communication technology with other fields, such as smart energy, unified security systems, next-generation media, healthcare and intelligent traffic control. In the field of smart energy, through the KT Micro-Energy Grid system, our convergence energy optimization project, we seek to contribute in preventing energy crisis and to increase energy efficiency. In the field of unified security systems, we seek to contribute to the establishment of national response systems for natural and other disasters, as well as enhancing personal and corporate security. In the field of next-generation media, we seek to contribute to the development of next-generation media contents and new media technology, thereby supporting the expansion of Korean media contents to overseas markets. We are also seeking ways to develop personalized treatment systems to provide enhanced healthcare, as well as creating intelligent traffic control systems to reduce traffic.

The Telecommunications Industry in Korea

The Korean telecommunications industry is one of the most developed in Asia. According to the MSIP, the number of mobile subscribers in Korea was 57.2 million and the number of broadband Internet access subscribers in Korea was 19.2 million as of December 31, 2014. As of December 31, 2014, the mobile penetration rate, which is calculated by dividing the number of mobile subscribers (including multiple counting of those who subscribe to more than one mobile service) by the population of Korea, was 111.2%, and the broadband Internet penetration rate, which is calculated by dividing the number of broadband Internet access service subscribers (including multiple counting of those who subscribe to more than one broadband Internet access service) by the number of households in Korea, was 92.6%.

Mobile Telecommunications Service Market

The Korean cellular market was formally established in 1984 when SK Telecom, formerly Korea Mobile Telecom, became the first mobile telephone operator in Korea. SK Telecom remained the only cellular operator in Korea until Shinsegi Telecom began service in 1994. In order to encourage further market growth and competition, the Government awarded three 2G licenses in June 1996. KTF was awarded a license alongside LG U+ and Hansol M.com, and commercial 2G service was launched in October 1997.

Since the introduction of three new operators in 1997, the Korean mobile market has undergone consolidation and significant growth. Following SK Telecom's purchase of a controlling stake in Shinsegi, we acquired a 47.9% interest in Hansol M.com in 2000 and renamed the company KT M.com. KT M.com merged into KTF in May 2001 and Shinsegi merged into SK Telecom in January 2002. In June 2009, KTF merged into KT Corporation, with KT Corporation surviving the merger. KT Corporation and SK Telecom offer third-generation, high-capacity HSDPA-based IMT-2000 wireless Internet and video multimedia communications services that use significantly greater bandwidth capacity. In July 2011, SK Telecom and LG U+ began offering fourth-generation communications services based on LTE technology, which enables data transmission at a speed faster than W-CDMA or WiBro networks, and we began our 4G LTE services in January 2012. Additionally, in September 2013, we commenced providing wideband LTE services, which utilizes our adjoining 20 MHz of bandwidths in the 1.8 GHz spectrum to provide transmission speed of up to 150 Mbps, twice faster than those offered under standard LTE services. SK Telecom also began providing its wideband LTE services in September 2013 and LG U+ commenced providing its wideband LTE services in January 2014. We expanded our wideband LTE services to all of Korea in July 2014. As of December 31, 2014, the number of our LTE subscribers exceeded 10.5 million. Furthermore, in March 2014, we commercialized Wideband LTE-A services, which interconnects our 20 MHz of bandwidth in the 1.8 GHz spectrum used to offer wideband LTE services with the 10 MHz of bandwidth in the 900 MHz spectrum used to offer standard LTE services by utilizing inter-band carrier aggregation technology to support transmission speed of up to 225 Mbps, and began additionally interconnecting 10 MHz of bandwidth in the 2.1 GHz spectrum in January 2015 to support transmission speed of up to 300 Mbps under the "Wideband LTE-A X4" service.

In April 2014, LG U+, SK Telecom and we began offering various unlimited mobile service packages, offering mobile subscribers with unlimited voice calls, text messaging, and LTE data. We believe that the continuing intense competition among major telecommunications operators in Korea and the resulting pressure on our fees, including from offerings of unlimited usage plans, may have a material adverse impact on our results of operations.

The table below gives the subscription and penetration information of the mobile telecommunications industry for the periods indicated:

	As of December 31,				
	2010	2011	2012	2013	2014
Total Korean Population ⁽¹⁾	50,516	50,734	50,948	51,141	51,409
Mobile Subscribers ⁽²⁾	50,767	52,507	53,624	54,681	57,208
Mobile Subscriber Growth Rate	5.9%	3.4%	2.1%	2.0%	4.6%
Mobile Penetration ⁽³⁾	100.5%	103.5%	105.3%	106.9%	111.2%

(1) In thousands, based on the number of registered residents as published by the Ministry of Government Administration and Home Affairs of Korea.

(2) In thousands, based on information announced by the KCC.

(3) Penetration is determined by dividing mobile subscribers by total Korean population.

Broadband Internet Access Market

With the advancement of broadband technology, the Korean broadband Internet access market has experienced significant growth. The principal technologies used in providing high speed Internet access services are xDSL, HFC and fiber optic LAN. xDSL refers to various types of digital subscriber lines, including ADSL and VDSL. xDSL offers an access solution over existing telephone lines using a specialized modem while HFC service involves the use of two-way cable networks. Fiber optic LAN is a technology that combines fiber optic cables and Unshielded Twisted Pair (or UTP) cables. Fiber optic cables are connected to residential and commercial buildings with UTP cable-based LAN capabilities. While xDSL and HFC are more widely used technologies because of their relative reliability, ease of provisioning and cost effectiveness, fiber optic LAN usage in Korea has been steadily increasing in recent years.

Since the subscribers of two-way cable networks share a limited bandwidth, the downstream speed tends to slow down as the number of subscribers increases, thereby decreasing the quality of HFC-based service. While xDSL technology was commercially introduced after HFC technology, it has surpassed HFC to become the prevalent broadband access platform in Korea. VDSL, ADSL-based technology with enhanced downstream speed, became commercialized in 2002. Some of the service providers have upgraded their broadband network to provide fiber optic LAN-based service to their subscribers, which further enhances data transmission speed up to 1 Gbps as well as improves connection quality, and enables such service providers to offer video-on-demand services with real-time high definition broadcasting.

In recent years, broadband Internet access service providers and mobile telecommunications service providers have focused their attention on providing wireless Internet connection capabilities. They have introduced wireless LAN service with speed of up to 1.3 Gbps, which is designed to integrate fixed-line and wireless services by offering high speed wireless Internet access to laptops, PDAs and smartphones in hot-spot zones and at home. Some service providers have also developed wireless Internet networks to provide WiBro service, which enables two-way wireless broadband Internet access to portable computers, mobile phones and other portable devices at a speed averaging 6 Mbps.

Our Services

Mobile Service

We provide mobile services based on W-CDMA technology and LTE technology. Prior to the merger of KTF into KT Corporation, we provided such services through KTF, which was formerly a consolidated subsidiary. KTF obtained one of the three licenses to provide nationwide 2G service in June 1996 and began offering 2G service in October 1997. In June 2009, KTF merged into KT Corporation, with KT Corporation surviving the merger, with the objective of maximizing management efficiencies of our fixed-line and mobile telecommunications operations as well as more effectively responding to the convergence trends in the telecommunications industry. We currently offer HSDPA-based IMT-2000 services, which are third-generation, high-capacity wireless Internet and video multimedia communications services based on W-CDMA wireless network standards. In January 2012, we also began offering 4G LTE services following the termination of our 2G services. We completed the expansion of our 4G LTE service coverage nationwide in October 2012 and commenced providing wideband LTE services in September 2013, and commercialized Wideband LTE-A services in March 2014, and began offering "Wideband LTE-A X4" services in January 2015 as discussed above.

Revenues related to mobile service accounted for 29.9% of our operating revenues in 2014. In addition, our goods sold, which are primarily from mobile handset sales, accounted for 14.7% of our operating revenues in 2014. The following table shows selected information concerning the usage of our network during the periods indicated and the number of our subscribers as of the end of such periods:

	As of or for the Year Ended December 31,		
	2012	2013	2014
Outgoing Minutes (in millions)	34,520	34,164	36,922
Average Monthly Outgoing Minutes per Subscriber ⁽¹⁾	174	182	196
Average Monthly Revenue per Subscriber ⁽²⁾	₩ 33,519	₩ 35,236	₩ 37,260
Number of Subscribers (in thousands)	16,502	16,454	17,328

- (1) The average monthly outgoing minutes per subscriber is computed by dividing the total minutes of usage for the period by the weighted average number of subscribers for the period and dividing the quotient by the number of months in the period. The weighted average number of subscribers is the sum of the total number of subscribers at the end of each month divided by the number of months in the period.
- (2) The average monthly revenue per subscriber is computed by dividing initial activation fees, total monthly fees, usage charges, interconnection fees and value-added service fees for the period by the weighted average number of subscribers and dividing the quotient by the number of months in the period.

We compete with SK Telecom, a mobile service provider that has a longer operating history than us, and LG U+ which began its service at around the same time as KTF. As of December 31, 2014, we had approximately 17.3 million subscribers, or a market share of 30.3%, which was second largest among the three mobile service providers.

We market our mobile services primarily through independent exclusive dealers located throughout Korea. As of December 31, 2014, there were approximately 2,500 shops managed by our independent exclusive dealers. In addition to assisting new subscribers to activate mobile service and purchase handsets, authorized dealers are connected to our database and are able to assist customers with account information. Although most of these dealers sell exclusively our products and services, sub-dealers hired by exclusive dealers may sell products and services offered by other mobile telecommunications service providers. Authorized dealers are entitled to a commission for each new subscriber registered, as well as ongoing commissions for the first five years based primarily on the subscriber's monthly fee, usage charges and length of subscription. The handsets sold by us to the dealers cannot be returned to us unless they are defective. If a handset is defective, it may be exchanged for a new one within 14 days from the date of purchase. On October

1, 2014, the Mobile Device Act, which regulates the sale and subsidies of mobile telecommunication devices, went into effect. See “Regulation – Rates”.

In response to the diversification of our customers’ demands and their increasing sophistication, we have also selectively engaged in opportunities to expand our internal sales channels in recent years. In 2007, we established a wholly-owned subsidiary, KT M&S Co., Ltd., that operates approximately 252 customer plazas that engage in mobile service sales activities as well as provide a one-stop shop for a wide range of other services and products that we offer. We also operate a website to promote and advertise our products and services to the general public and in particular to younger customers who are more familiar with the Internet.

We conduct the screening process for new subscribers with great caution. A potential subscriber must meet all minimum credit criteria before receiving mobile service. The procedure includes checking the history of non-payment and credit information from banks and credit agencies such as the National Information and Credit Evaluation Corporation. Applicants who do not meet the minimum criteria can only subscribe to the mobile service by using a pre-paid card.

Fixed-line Services

We provide a variety of fixed-line communication services, including various telephone services, broadband and other internet services and data communication services.

Fixed-line Telephone Services

We utilize our extensive nationwide telephone network to provide fixed-line telephone services, which consist of local, domestic long-distance, international long-distance services and land-to-mobile interconnection services. These fixed-line telephone services accounted for 11.0% of our operating revenues in 2014. Our telephone network includes exchanges, long-distance transmission equipment and fiber optic and copper cables. The following table gives some basic measures of the development of our telephone system. In recent years, the proliferation of mobile phones, as well as the availability of increasingly lower wireless pricing plans, some of which include unlimited voice minutes, have led to significant decreases in our domestic long-distance call minutes and local call pulses.

	As of or for the Year Ended December 31,				
	2010	2011	2012	2013	2014
Total Korean population (thousands) ⁽¹⁾	50,516	50,734	50,948	51,141	51,328
Lines installed (thousands) ⁽²⁾	25,524	23,925	25,242	24,264	23,930
Lines in service (thousands) ⁽²⁾	16,620	15,900	15,121	14,032	13,713
Lines in service per 100 inhabitants ⁽³⁾	32.9	31.3	29.7	27.4	26.7
Fiber optic cable (kilometers)	448,328	527,188	584,932	636,347	673,783
Number of public telephones installed (thousands)	123	111	101	94	88
Domestic long-distance call minutes (millions) ⁽⁴⁾	7,318	6,574	6,067	4,842	3,512
Local call pulses (millions) ⁽⁴⁾	7,973	6,697	6,071	4,895	3,969

- (1) Based on the number of registered residents as published by the Ministry of Government Administration and Home Affairs of Korea.
- (2) Including lines used for public telephones but excluding lines dedicated to centralized extension system services for corporate subscribers.
- (3) Determined based on lines in service and total Korean population.
- (4) Excluding calls placed from public telephones.

Our domestic long-distance cable network is entirely made up of fiber optic cable and can carry both voice and data transmissions. Compared to conventional materials such as coaxial cable, fiber optic cable provides significantly greater transmission capacity with less signal fading, thus requiring less frequent amplification. All of our lines are connected to exchanges capable of handling digital signal technology. A principal limitation of the older analog technology is that applications other than voice communications, such as the transmission of text and computer data, require either separate networks or conversion equipment. Digital systems permit a range of voice, text and data applications to be transmitted simultaneously on the same network.

The following table shows the number of minutes of international long-distance calls recorded by us and specific service providers utilizing our international long-distance network in each specified category for each year in the five-year period ended December 31, 2014:

	Year Ended December 31,				
	2010	2011	2012	2013	2014
	(In millions of billed minutes)				
Incoming international long-distance calls	523.5	541.6	520.3	628.4	549.4
Outgoing international long-distance calls	325.1	332.1	289.7	244.2	212.2
Total	848.6	873.7	810.0	872.6	761.6

Japan (26.6%), China (20.7%) and the United States (9.3%) accounted for the greatest percentage of our international long-distance call traffic measured in minutes in 2014. In recent years, the volume of our incoming calls has exceeded the volume of our outgoing calls. The agreed settlement rate is applied to the call minutes to determine the applicable net settlement payment.

Interconnection. Under the Telecommunications Business Act, we are required to permit other service providers to interconnect to our fixed-line network. Currently, the principal users of this interconnection capacity include SK Broadband and LG U+ (offering local, domestic long-distance and international long-distance services), Onse and SK Telink (offering international and domestic long-distance services), and SK Telecom and LG U+ (transmitting calls to and from their mobile networks). We recognize as land-to-mobile interconnection revenue the entire amount of the usage charge collected from the landline user and recognize as an expense the amount of interconnection charge paid to the mobile service provider.

Internet phone services. The volume of calls made through Internet phone services has significantly increased since Internet phone service was first introduced in Korea in 1998. We provide Internet phone services that enable VoIP phone devices with broadband connection to make domestic and international calls. In order to differentiate our Internet phone services from our competitors' services, we provide value-added services such as video communication, short message service, phone banking and a variety of traffic and local news information. As of December 31, 2014, we had approximately 3.4 million subscribers.

Internet Services

Broadband Internet Access Service. Leveraging on our nationwide network of 673,783 kilometers of fiber optic cable network, we have achieved a leading market position in the broadband Internet access market in Korea. We believe we have a competitive advantage over other broadband Internet access service providers because, unlike our competitors, we can utilize our existing networks nationwide to provide broadband Internet access service. Our broadband Internet access service accounted for 8.2% of our operating revenues in 2014. Our principal Internet access services include:

- ADSL, VDSL, Ethernet and FTTH services under the "olleh Internet" and "olleh GiGA Internet" brand name;
- wireless LAN service (or WiFi) under the "ollehWiFi" brand name, which is designed to integrate fixed-line and wireless services by offering high speed wireless Internet access to laptops, PDAs and smartphones in hot-spot zones and olleh Internet service in fixed-line environments. OllehWiFi enables subscribers to access the Internet at a speed of up to 1.3 Gbps. We sponsored approximately 100,000 hot-spot zones nationwide for wireless connection as of December 31, 2014; and
- olleh 4G WiBro Internet access service, which enables two-way wireless broadband Internet access to portable computers, mobile phones and other portable devices at a speed averaging 6 Mbps per user.

We had approximately 8.1 million fixed-line olleh Internet subscribers and approximately 124,000 ollehWiFi service subscribers as of December 31, 2014. We commercially launched our WiBro service in June 2006, and we had approximately 720,000 subscribers as of December 31, 2014. We launched our olleh GiGA Internet Service, which provides transmission speed of up to 1 Gbps, and had approximately 117,000 subscribers as of December 31, 2014. We also bundle our WiBro service with olleh Internet and ollehWiFi services at a discount in order to attract additional subscribers.

Our olleh Internet service utilizes ADSL technology, which is a technology that converts existing copper twisted-pair telephone lines into access paths for multimedia and high-speed data communications. ADSL transforms the existing public telephone network from one limited to voice, text and low-resolution graphics to a

system capable of bringing multimedia to subscriber premises without new cabling. The asymmetric design optimizes the bandwidth by maximizing the downstream speed for downloading information from the Internet. While ADSL technology was commercially introduced after HFC-based technology, it has surpassed HFC to become the prevalent access platform in Korea. VDSL, ADSL-based technology with enhanced downstream speed, became commercialized in July 2002. We are continually upgrading our broadband network to enable better FTTH connection, which further enhances data transmission speed of up to 1 Gbps 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 IPTV, and other digital media content with higher stability.

The high-speed downstream rates can reach up to 8 Mbps for ADSL, 100 Mbps for VDSL and 1 Gbps for FTTH. Downstream rates depend on a number of factors. For a constant wire gauge, the data rate decreases as the length of the copper wire increases. Generally, if the separation between the telephone office and the subscriber is greater than four kilometers, line attenuation is so severe that broadband speeds can no longer be achieved. Approximately 95% of the households subscribing to our basic local telephone service are located within a four kilometer radius of our telephone offices, making our *olleh* Internet service available to most of the Korean population. Fiber-optic cable used by FTTH, on the other hand, uses laser light to carry signals that travel long distances inside fiber optic cable without degradation.

Other Internet-related Services. Our other Internet-related services focus primarily on providing infrastructure and solutions for business enterprises, as well as IPTV and network portal services. Our other Internet-related services accounted for 4.9% of our operating revenues in 2014.

We operate seven Internet data centers located throughout Korea and provide a wide range of computing services to companies which need servers, storage and leased lines. Internet data centers are facilities used to house, protect and maintain network server computers that store and deliver Internet and other network content, such as web pages, applications and data. Our Internet data centers are designed to meet international standards, and are equipped with temperature control systems, regulated and reliable power supplies, fire detection and suppression equipment, security monitoring and wide-bandwidth connections to the Internet. Internet data centers allow corporations to outsource their application and server hardware management.

Our Internet data centers offer network outsourcing services, server operation services and system support services. Our network outsourcing services include co-location, which is the installation of our customers' network equipment at our Internet data centers. Co-location is designed to increase customers' Internet connection speed and reduce connection time and costs by directly connecting the customers' server to the Internet backbone switch at our Internet data centers. Our server operation services include optimal server management service and technical support service we provide with respect to the leased servers that are linked directly to our Internet backbone switch. We also lease servers and network equipment for a fixed monthly fee. Our system support services include providing system resources for a wide range of Internet computing services, such as application transfer, network storage, video streaming and application download, as well as sending short text messages and messages containing multimedia objects, such as images, audio and video.

We also offer a service called Bizmeka to develop and commercialize business-to-business solutions targeting small- and medium-sized business enterprises in Korea. Bizmeka is an applied application service provider which provides industry standard and specialized business solutions, including integrated business administration solutions and intranet collaboration solutions.

We also offer high definition video-on-demand and real-time broadcasting IPTV services under the brand name "*olleh* TV," and began offering ultra-high-definition ("UDH") IPTV services, which offer resolutions up to four times those offered under high-definition television services, under the brand name "*olleh* GiGA UHD TV" starting in September 2014. Our IPTV service offers access to an array of digital media contents, including movies, sports, news, educational programs and TV replay, for a fixed monthly fee or on a pay-per-view basis. Through a digital set-top box that we rent to our customers, our customers are able to browse the catalogue of digital media contents and view selected media streams on their television. A set-top box provides two-way communications on an IP network and decodes video streaming data. We had 5.9 million *olleh* TV subscribers as of December 31, 2014. In March 2015, amendments to the Internet Multimedia Broadcasting Business Act were passed at a plenary session of the National Assembly, which will become effective three months after it is promulgated unless vetoed by the President of Korea. Under such amendments, which will be in effect until June 2018, a single broadcasting operator may not have more than one-third of the market share of all paid broadcasting subscribers in Korea.

Data Communications Service

Our data communications service involves offering exclusive lines that allow point-to-point connection for voice and data traffic between two or more geographically separate points. As of December 31, 2012, 2013 and 2014, we leased 246,951 lines, 235,147 lines and 231,436 lines to domestic and international businesses. The data communication service accounted for 4.8% of our operating revenues in 2014.

We provide dedicated and secure broadband Internet connection service to institutional customers under the “Kornet” brand name. We provide high-speed connection up to 10.0 Gbps connected to our internet backbone network with capacity of 6.6 Tbps, as well as rent to our customers and install necessary routers to ensure reliable Internet connection and enhanced security. We provide discount rates to qualified customers, including small- and medium-sized enterprises, businesses engaging in Internet access services and government agencies.

Financial Services

To further diversify our business and to create synergies through utilization of our mobile telecommunications network in financial services, we, through our subsidiary KT Capital Co., Ltd., acquired 1,622,520 additional shares of common stock of BC Card Co., Ltd. from Woori Bank, Busan Bank and Shinhan Card for approximately ₩252 billion in October 2011. As we were deemed to have control over BC Card Co., Ltd., it became our consolidated subsidiary starting in October 2011. We acquired an additional 1,349,920 common shares of BC Card Co., Ltd. in January 2012 for approximately ₩287 billion, and owned a 69.54% interest in BC Card Co., Ltd. as of December 31, 2014. BC Card Co., Ltd. offers various credit card and related financial services. KT Capital had consolidated operating revenues of ₩186 billion and net income of ₩69 billion for the year ended December 31, 2014 and consolidated assets of ₩2,038 billion and liabilities of ₩1,760 billion as of December 31, 2014. In March 2014, the investment business division of KT Capital Co., Ltd., including 3,059,560 common shares of BC Card Co., Ltd. that KT Capital Co., Ltd. held, was spun off and merged into KT Corporation, to further strengthen the synergy between telecommunication and finance operations within the KT group and increase shareholder value. Financial Services accounted for 17.2% of our operating revenues in 2014. To focus on our core telecommunications business, we had actively sought to dispose of our interests in KT Capital, which we discontinued as we believed the potential offers did not adequately reflect KT Capital's value. We will continue to evaluate various options in which we can maximize KT Capital's strategic value, based on our overall corporate strategy and other factors.

Automobile Rental Services

We also operated KT Rental, a subsidiary that provides rental cars and equipment. In March 2010, MBK Partners, a private equity firm, and we jointly acquired Kumho Rent-A-Car Co., Ltd. from Korea Express Inc. for ₩263 billion, with each taking a 50% stake. Kumho Rent-A-Car was subsequently merged with the car rental business unit of KT Rental in June 2010. KT Rental became a consolidated subsidiary starting in 2012, as the restriction on our controlling power over KT Rental pursuant to a shareholders' agreement was resolved as a result of the acquisition of KT Rental's common stock by Hana Daetoo Securities Co., Ltd. and other investors from the then-second largest shareholder in July 2012. KT Rental operated approximately 122,000 vehicles as of December 31, 2014 and had a market share of 26.6% of the domestic car rental market in 2014. Automobile rental services accounted for 3.3% of our operating revenues in 2014. An agreement to sell KT Rental to the Lotte Group for approximately ₩1.02 trillion (with estimated proceeds to KT Corporation being approximately ₩772 billion) was entered into in March 2015, and the sale is expected to be completed in May 2015.

Miscellaneous Businesses

We also engage in various business activities that extend beyond telephone services and data communications services, including satellite services, information technology and network services, real estate development, satellite TV services, with the consolidation of KT Skylife Co. starting in January 2011, and media contents business with the establishment of KT Media Hub Co., Ltd. in December 2012. As of December 31, 2014, KT Media Hub Co., Ltd. had revenues of ₩335 billion. We merged KT Media Hub Co., Ltd. into KT Corporation in March 2015, to enhance shareholder value by increasing management efficiency and promoting synergy among our existing businesses. Our miscellaneous businesses accounted for 6.1% of our operating revenues for 2014.

We provide transponder leasing, broadcasting, video distribution and data communications services through our satellites. We currently operate two satellites, Koreasat 5 and Koreasat 6 (also known as olleh 1),

and own interests in one additional satellite, Koreasat 8. In August 2006, we launched Koreasat 5 to replace Koreasat 2 (launched in 1996 with a design life of ten years). Koreasat 5, a combined civil and governmental communications satellite, is the first Korean satellite to provide commercial satellite services to neighboring countries. The design life of Koreasat 5 is 15 years, and it currently remains in operation.

In December 2010, we launched Koreasat 6, with a design life of 15 years, to replace Koreasat 3 (originally launched in 1999, with a design life of 12 years). Koreasat 6 began its commercial operation in February 2011 and carries transponders that are mainly used for direct-to-home satellite broadcasting, video distributions and data communications services. Most of the direct-to-home satellite broadcasting transponders are utilized by KT Skylife Co. We also lease satellite capacity from other satellite operators to offer satellite services to both domestic and international customers. In August 2010, we procured from Asia Broadcast Satellite ("ABS"), a Hong Kong-based satellite operator, four transponders on ABS-1 satellite and eight additional transponders on ABS-2 satellite (which was later renamed Koreasat 8) in order to provide global satellite services. Koreasat 8 launched its operations in February 2014. In the second half of 2014, we transferred our interest in the ABS-1 transponders to the Koreasat 8 satellite. We sold to ABS the Koreasat 3 satellite in September 2011, as the satellite had reached the end of its design life. We expect to launch two additional satellites during 2016, one to offer new satellite services, and the other to replace Koreasat 5.

In December 2012, we spun-off our satellite service business by establishing KT Sat Co., Ltd., in an effort to enhance operational specialization and to foster management efficiency, enabling us to respond more promptly to the changing market environments and increasing competitiveness.

In December 2013, the MSIP declared that the contract over our sale of Koreasat 3 was null and void, on the grounds that the satellite was sold without obtaining proper government approval. We are currently involved in arbitration proceedings against ABS under the Rules of the International Chamber of Commerce over the Koreasat 3 satellite ownership and contract violation claims.

We offer a broad array of integrated information technology and network services to our business customers. Our range of services include consulting, designing, building and maintaining systems and communication networks that satisfy the individual needs of our customers in the public and private sectors.

We own land and real estate in various locations nationwide. Technological developments have enhanced the coverage area of individual telecommunications facilities, which enable us to better utilize our existing land and other real estate holdings. In recent years, we have engaged in the planning and development of commercial and office buildings and condominiums on our unused sites, as well as in the leasing of buildings we own. We established KT Estate Inc. in August 2010 to oversee the planning, development and operation of our real estate assets, and established KT AMC, an asset management company, in September 2011 as a subsidiary of KT Estate Inc. to create additional synergies with our real estate assets. We made a contribution in-kind of ₩1,254 billion to KT Estate Inc. in December 2012 to further strengthen KT Estate's competitiveness and to better utilize our assets.

To respond to the trend of convergence in the telecommunications and broadcasting industries, and to seek additional synergies with our existing operations, we acquired 5,600,000 shares of redeemable convertible preferred stock with voting rights and convertible bonds that were convertible into 5,600,000 shares of common stock of KT Skylife Co., Ltd. from Dutch Savings Holdings B.V. in January 2011 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 50.1% interest in KT Skylife Co., Ltd. as of December 31, 2014. KT Skylife offers satellite TV services, which may also be packaged with our IPTV services as further described below, and had consolidated operating revenues of ₩653 billion and net income of ₩55 billion for the year ended December 31, 2014 and consolidated assets of ₩683 billion and liabilities of ₩246 billion as of December 31, 2014.

In December 2012, we also established KT Media Hub Co., Ltd., a subsidiary that specializes in the development of media contents, with a cash capital contribution of ₩80 billion. We believe that the media contents business will be a future growth opportunity for us, and this subsidiary further enhances our specialization in the media contents business. It also allows us to better adapt to the rapidly changing market environment in the field.

Revenues and Rates

The table below shows the percentage of our revenues derived from each category of services for each of the years from 2012 to 2014:

	Year Ended December 31,		
	2012	2013	2014
Mobile services	26.7%	27.9%	29.9%
Fixed-line services	30.8	29.8	28.9
<i>Fixed-line telephone services:</i>			
Monthly basic charges	3.3	3.1	2.9
Monthly usage charges	7.1	6.1	5.2
Others	3.4	3.2	2.9
Sub-total	13.7	12.4	11.0
<i>Internet services:</i>			
Broadband Internet access service	8.3	8.4	8.1
Other Internet-related services ⁽¹⁾	3.5	4.1	4.9
Sub-total	11.8	12.5	13.0
Data communications service ⁽²⁾	5.3	5.0	4.8
Goods sold ⁽³⁾	18.6	16.9	14.7
Financial services	13.5	13.6	17.2
Automobile rental services ⁽⁴⁾	1.0	2.5	3.3
Miscellaneous businesses ⁽⁵⁾	9.4	9.2	6.1
Operating revenues	100.0%	100.0%	100.0%

(1) Includes revenues from services provided by our Internet data centers, Bizmeka and olleh TV.

(2) Includes revenues from KorNet Internet connection service and satellite services.

(3) Includes mobile handset sales.

(4) KT Rental Co., Ltd. became our consolidated subsidiary starting in 2011. An agreement to sell KT Rental to the Lotte Group for approximately ₩1.02 trillion (with estimated proceeds to KT Corporation being approximately ₩772 billion) was entered into in March 2015, and the sale is expected to be completed in May 2015.

(5) Includes revenues from satellite services, information technology and network services and real estate development business.

Mobile Services

We derive revenues from mobile services principally from:

- activation fees;
- monthly fees;
- usage charges for outgoing calls;
- usage charges for wireless data transmission;
- contents download fees;
- value-added monthly service fees; and
- mobile-to-mobile interconnection charges.

We offer various rate plans, including those that offer a specified number of free airtime minutes per month in return for a higher monthly fee and those that are geared toward business customers. In August 2013, we, SK Telecom, and LG U+ reduced the activation fee for new subscribers by approximately 40%. Our activation fee was reduced from ₩24,000 to ₩14,400, SK Telecom's activation fee was reduced from ₩39,600 to ₩23,760, and LG U+'s activation fee was reduced from ₩30,000 to ₩18,000. In January 2014, the MSIP announced its plans to further reduce activation fees in the second half of 2014 so that such fees would be reduced to 50% of levels then-existing. In August 2014, we, SK Telecom and LG U+ reduced activation fees for new subscribers by approximately 50%. Our activation fee was reduced from ₩14,400 to ₩7,200, SK Telecom's activation fee was reduced from ₩23,760 to ₩11,880 and LG U+'s activation fee was reduced from ₩18,000 to ₩9,000. SK Telecom abolished its activation fee completely in November 2014 and we abolished our activation fee completely in March 2015. We currently only offer our standard rate plan for our HSDPA-based service. Under our standard rate plan we charge a monthly fee of ₩11,000, voice calling usage charges of ₩1.8 per second and video calling usage charges of ₩3 per second, without any free voice or video call airtime minutes.

A subscriber may also subscribe to an individually designed calling rate plan by mixing free voice calling airtime minutes and free text messages at a set monthly fee. We also provide plans specially designed for elderly and pre-teen subscribers as well as special discounts to our subscribers with physical disabilities.

We introduced rate plans specifically for smartphone users starting in September 2009. In June 2013, we introduced the Everyone olleh rate plan, which permits users to make unlimited voice calls within our wireless network, and the Fixed-Line & Wireless Unlimited rate plan, which permits users to make unlimited voice calls within both our fixed-line and wireless networks. Starting from November 2014, we began offering our major 3G and LTE mobile plans at discounted rates which were previously offered only to subscribers who signed on for mandatory subscription periods ranging from one to two years, thereby eliminating the need to sign on for any mandatory subscription period to benefit from our discounted plans and removing any early termination penalties. We believe such changes allow our subscribers a wider flexibility in choosing their mobile plans based on their needs. The following table summarizes the charges associated with our representative smartphone service plans:

	Free Airtime Minutes ⁽¹⁾		Free Data Transmission ⁽²⁾	Monthly Fee	Discount ⁽³⁾
	Voice or video calls to anyone	Voice or video calls to our mobile subscribers	(in megabytes)		
i - teen	193			₩ 34,000	₩ 13,000
i - Slim	150		100	34,000	13,000
i - Lite	200		500	44,000	16,000
i - Talk	250		100	44,000	16,000
i - Value	300		Unlimited	54,000	18,000
i - Medium	400		Unlimited	64,000	21,000
i - Special	600		Unlimited	78,000	24,000
i - Premium	800	Unlimited	Unlimited	94,000	30,000
Everyone olleh 35(3G)	130	Unlimited	750	35,000	7,000
Everyone olleh 45(3G)	185	Unlimited	1,536	45,000	11,000
Everyone olleh 55(3G)	250	Unlimited	2,560	55,000	14,000
Fixed-Line & Wireless Unlimited 67(3G) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	5,120	67,000	16,000
Fixed-Line & Wireless Unlimited 77(3G) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	9,216	77,000	18,000
Fixed-Line & Wireless Unlimited 97(3G) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	17,408	97,000	20,000
Fixed-Line & Wireless Unlimited 129(3G) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	25,600	129,000	30,000
Net i - Slim	150		100	21,000	—
Net i - Value	300		Unlimited	34,000	—
Net Everyone olleh 28(3G)	130	Unlimited	750	28,000	—
Net Everyone olleh 34(3G)	185	Unlimited	1,536	34,000	—
Net Everyone olleh 41(3G)	250	Unlimited	2,560	41,000	—
Net Fixed-Line & Wireless Unlimited 51(3G) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	5,120	51,000	—
Net Fixed-Line & Wireless Unlimited 61(3G) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	10,240	61,000	—
Net Fixed-Line & Wireless Unlimited 77(3G) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	17,408	77,000	—
Net Fixed-Line & Wireless Unlimited 99(3G) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	25,600	99,000	—

- (1) Starting in May 2012, each second of video call counts as 1.66 second of voice call.
- (2) We do not charge for data transmission in wireless LAN zones and charge ₩0.01 per 0.5 kilobyte for any data transmission exceeding the free monthly quota, up to a maximum of ₩150,000.
- (3) We provide various discounts to subscribers signing up for mandatory subscription periods.
- (4) Includes free mobile and fixed-line voice calls and 200 minutes of free video calls.
- (5) Provides an additional daily quota of 2GB after the free monthly quota has been exhausted and also provides unlimited use of data at transmission speed of up to 3Mbps after the daily quota of 2GB has been exhausted.

In connection with the rollout of our 4G LTE services in January 2012, we also introduced new rate plans specifically for LTE phone users. We began offering various unlimited data plans in March 2014, which allows unlimited LTE data usage within certain transmission speeds after the monthly quota at the highest LTE data transmission speed has been exhausted. The following table summarizes charges for our representative LTE service plans:

	Free Airtime Minutes ⁽¹⁾		Free Data Transmission ⁽²⁾	Monthly Fee	Discount ⁽³⁾
	Voice or video calls to anyone	Voice or video calls to our mobile subscribers	(in megabytes)		
LTE-340.....	160		750	₩34,000	₩7,000
LTE-420.....	200		1,536	42,000	11,000
LTE-520.....	250		2,560	52,000	14,000
LTE-620.....	350		6,144	62,000	16,000
LTE-720.....	450		10,240	72,000	18,000
Everyone olleh 35(LTE)	130	Unlimited	750	35,000	7,000
Everyone olleh 45(LTE)	185	Unlimited	1,536	45,000	11,000
Everyone olleh 55(LTE)	250	Unlimited	2,560	55,000	14,000
Fixed-Line & Wireless Unlimited 67(LTE) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	5,120	67,000	16,000
Fixed-Line & Wireless Unlimited 79(LTE) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	10,240	77,000	18,000
Fixed-Line & Wireless Unlimited 87(LTE) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	12,288	77,000	20,000
Fixed-Line & Wireless Unlimited 97(LTE) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	17,408	97,000	20,000
Fixed-Line & Wireless Unlimited 129(LTE) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	25,600	129,000	30,000
Wideband Safe Unlimited 67 ⁽⁶⁾	100		15,360	67,000	16,000
Wideband Safe Unlimited 77 ⁽⁶⁾	300		15,360	77,000	18,000
Net Everyone olleh 28 (LTE).....	130	Unlimited	750	28,000	—
Net Everyone olleh 34 (LTE).....	185	Unlimited	1,536	34,000	—
Net Everyone olleh 41 (LTE).....	250	Unlimited	2,560	41,000	—
Net Fixed-Line&Wireless Unlimited 51(LTE) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	5,120	51,000	—
Net Fixed-Line&Wireless Unlimited 61(LTE) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	10,240	61,000	—
Net Fixed-Line&Wireless Unlimited 67(LTE) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	12,288	67,000	—
Net Fixed-Line&Wireless Unlimited 77(LTE) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	17,408	77,000	—
Net Fixed-Line&Wireless Unlimited 99(LTE) ⁽⁴⁾⁽⁵⁾	Unlimited(200)	Unlimited	25,600	99,000	—
Net Wideband Safe Unlimited 51 ⁽⁶⁾	100	Unlimited	15,360	67,000	—

- (1) Starting in May 2012, each second of video call counts as 1.66 second of voice call.
- (2) We do not charge for data transmission in wireless LAN zones. We charge ₩0.01 per 0.5 kilobyte for any additional data transmission exceeding the free monthly quota, up to a maximum of ₩150,000.
- (3) We provide various discounts to subscribers signing up for mandatory subscription periods.
- (4) Includes free mobile and fixed-line voice calls and 200 minutes of free video calls.
- (5) Provides an additional daily quota of 2GB after the free monthly quota has been exhausted, and also provides unlimited use of data with speed of up to 3Mbps after the daily quota of 2GB has been exhausted.
- (6) Provides unlimited use of data at transmission speed of up to 3Mbps after the monthly quota of 15GB has been exhausted, and also provides unlimited voice calls with one designated number within our network.

We have entered into arrangements with various partners including a leading discount store, a leading online shopping mall, several leading banks, an operator of cinema complexes, a leading automobile manufacturing company and Korea Railroad Corporation, and we offer subscribers of our mobile service monthly discount coupons, membership points or movie tickets from such partners as promotional gifts.

In December 2010, we also introduced 3G data-only plans targeting tablet PC users, smartphone users and other special phone users, and currently offer subscription plans for data transmission amounts ranging from 1 GB to 4GB at monthly fees ranging from ₩12,500 to ₩24,500.

In June 2012, we introduced LTE data-only plans, in both basic and various discounted packages, which currently provides 1.6 GB to 6.4 GB of data at monthly fees ranging from ₩18,000 to ₩30,000. The following table summarizes charges for our representative data-only plans:

3G Data-only Pricing Plans

	Monthly Data Quota (3G Network)	Monthly Fee
Net olleh Data 1G ^{(1) (2)}	1GB	₩ 12,500
Net olleh Data 2G ^{(1) (2)}	2GB	16,000
Net olleh Data 4G ^{(1) (2)}	2GB	24,500

- (1) We charge ₩0.025 per 0.5 kilobyte for any additional data transmission in excess of the monthly quota.
- (2) Unused data is not carried over to the next month. Customers may not subscribe to our m-VoIP services and data add-on services, such as Data Plus, Data Sharing, Genie Pack and OTN Pack.

LTE Data-only Pricing Plans

	Monthly Data Quota (3G and LTE Networks)	Monthly Fee
Net LTE Data 1.6G ^{(1) (2)}	1.6GB	₩ 18,000
Net LTE Data 3.2G ^{(1) (2)}	3.2GB	22,500
Net LTE Data 6.4G ^{(1) (2)}	6.4GB	30,000

- (1) We charge ₩0.01 per 0.5 kilobyte for any additional data transmission in excess of the monthly data quota and Safe Zone data, regardless of network.
- (2) Unused data is not carried over to the next month. Customers may not subscribe to our m-VoIP services and data add-on services, such as Data Plus, Data Sharing, Genie Pack and OTN Pack.

Mobile-to-mobile Interconnection. For a call initiated by a mobile subscriber of our competitor to our mobile subscriber, the mobile service provider collects from its subscriber its normal rate and remits to us a mobile-to-mobile interconnection charge. In addition, for a call initiated by our mobile subscriber to a mobile subscriber of our competitor, we collect from our subscriber our normal rate and remit to the mobile service provider a mobile-to-mobile interconnection charge.

The following table shows the interconnection charges we paid per minute (exclusive of value-added taxes) to mobile operators, and the charges received per minute (exclusive of value-added taxes) from mobile operators for mobile to mobile calls:

	January 1, 2012	Effective Starting January 1, 2013	January 1, 2014
SK Telecom	₩27.1	₩26.3	₩22.2
LG U+	28.2	27.0	22.8
KT	28.0	27.0	22.7

We recognize as mobile-to-mobile interconnection revenue the entire amount of the usage charge collected from the mobile user and recognize as expense the amount of interconnection charge paid to the mobile service provider.

Fixed-line Services

Fixed-line Telephone Services

Local Telephone Service. Our revenues from local telephone service consist primarily of:

- service initiation fees for new lines;
- monthly basic charges; and
- monthly usage charges based on the number of call pulses.

The rates we charge for local calls are currently subject to approval by the MSIP after consultation with the Ministry of Strategy and Finance. The rates are identical for residential and commercial customers. All calls are currently measured by call pulses. Each pulse is determined by the duration of the call and the time of the day at which the call is made. Our current local usage rates, which have been in effect since May 2002, are ₩39 per pulse for regular service and ₩70 per pulse for public telephones. For local calls, a pulse is triggered at the beginning of each local call and every three minutes thereafter from 8:00 a.m. to 9:00 p.m. on weekdays and every 258 seconds thereafter on holidays and from 9:00 p.m. to 8:00 a.m. on weekdays.

We also charge a monthly basic charge ranging from ₩3,000 to ₩5,200, depending on location, and a non-refundable service initiation fee of ₩60,000 to new subscribers. The non-refundable service initiation fee is waived for the new subscribers who subscribe to our local service through our online application process. Until April 2001, we charged refundable service initiation deposits, which were refunded upon termination of service. As of December 31, 2014, we had ₩427 billion in refundable service initiation deposits outstanding and 1,949 thousand subscribers who are enrolled under the mandatory deposit plan and are eligible to switch to the no deposit plan and receive their service initiation deposit back (less the non-refundable service initial fees).

Domestic Long-distance Telephone Service. Our revenues from domestic long-distance service consist of charges for calls placed, charged for the duration, time of day and day of the week a call is placed, and the distance covered by the call. We are able to set our own rates for domestic long-distance service without approval from the MSIP.

Our current basic domestic long-distance rates, which have been in effect since November 2001, are ₩39 per three minutes for distances of up to 30 kilometers and ₩14.5 per ten seconds (equivalent to ₩261 per three minutes) for distances in excess of 30 kilometers. For domestic long-distance calls for distances of up to 30 kilometers, a pulse is triggered at the beginning of each call and every three minutes thereafter. For domestic long-distance calls for distances in excess of 30 kilometers, a pulse is triggered at the beginning of each call and every 10 seconds thereafter. Rates for domestic long-distance calls for distances up to 30 kilometers are currently discounted by an adjustment in the period between pulses, by approximately 11% (utilizing a pulse rate of 200 seconds) from 6:00 a.m. to midnight on holidays and from 6:00 a.m. to 8:00 a.m. on weekdays, and by approximately 43% (utilizing a pulse rate of 258 seconds) from midnight to 6:00 a.m. every day. Rates for domestic long-distance calls for distances in excess of 30 kilometers are currently discounted by approximately 10% (utilizing a rate of ₩13.1 per ten seconds) from 6:00 a.m. to midnight on holidays and from 6:00 a.m. to 8:00 a.m. on weekdays, and by approximately 30% (utilizing a rate of ₩10.2 per ten seconds) from midnight to 6:00 a.m. every day.

In recent years, we have begun to offer optional flat rate plans, discount plans and bundled product plans in order to mitigate the impact from lower usage of local and domestic long-distance calls and stabilize our revenues from fixed-line telephone services. For a discussion of our bundled products, see “— Bundled Products.” Some of our flat rate and discount plans that we currently offer include the following:

- a subscriber who elects to pay a monthly flat rate of ₩12,500 is able to make free local and domestic long-distance calls after 9 p.m. on weekdays or at any time on weekends. Each month, the subscriber also receives a free movie ticket and free 60 minutes of land-to-mobile calls. The subscriber is also eligible to receive a discount of up to 20%, subject to the length of the mandatory subscription period;
- a subscriber who elects to subscribe to our fixed-line phone service for a three year mandatory subscription period is able to make local and domestic long-distance calls at a flat rate of ₩39 per three minutes;
- a subscriber who elects to subscribe to our broadband Internet access service or HSDPA-based mobile service for a three year mandatory subscription period is able to make local, domestic long-distance and land-to-mobile calls of up to ₩150,000 with a flat rate payment of ₩50,000 or such calls up to ₩50,000 with a flat rate payment of ₩10,000. Standard rates apply to calls that exceed the capped amounts; and
- a subscriber who elects to pay a monthly flat rate ranging from ₩7,500 to ₩15,000, depending on the types of calls the subscriber wishes to make, is able to use 3,000 minutes per month of local, domestic long-distance, land-to-VoIP and land-to-KT mobile calls.

International Long-distance Service. Our revenues from international long-distance service consist of:

- amounts we bill to customers for outgoing calls made to foreign countries (including customers who make calls to Korea from foreign countries under our home country direct-dial service);
- amounts we bill to foreign telecommunications carriers for connection to the Korean telephone network in respect of incoming calls (including calls placed in Korea by customers of the foreign carriers for home country direct-dial service); and
- other revenues, including revenues from international calls placed from public telephones.

We bill outgoing calls made by customers in Korea (and calls made to Korea from foreign countries under our home country direct-dial service) in accordance with our international long-distance rate schedule for the country called. These rates vary depending on the time of day at which a call is placed. We bill outgoing international calls on the basis of one-second increments. We are able to set our own rates for international long-distance service without approval from the MSIP.

For incoming calls (including calls placed in Korea by customers of the foreign carriers for home country direct-dial service), we receive settlement payments from the relevant foreign carrier at the applicable settlement rate specified under the agreement with the foreign carrier. We have entered into numerous bilateral agreements with foreign carriers. We negotiate the settlement rates under these agreements with each foreign carrier, subject to the MSIP's approval. It is the practice among international carriers for the carrier in the country in which the call is billed to collect payments due in respect of the use of overseas networks. Although we record the gross amounts due to and from us in our financial statements, we make settlements with most carriers monthly or quarterly on a net basis.

Land-to-mobile Interconnection. We provide other telecommunications service providers, including mobile operators and other fixed-line operators, interconnection to our fixed-line network. For a call initiated by a landline user to a mobile service subscriber, we collect from the landline user the land-to-mobile usage charge and remit to the mobile service provider a land-to-mobile interconnection charge. The MSIP periodically issues orders setting the interconnection charge calculation method applicable to interconnections with mobile service providers. The MSIP determines the land to mobile interconnection charge by calculating the long run incremental cost of mobile service providers, taking into consideration technology development and future expected costs.

The following table shows the interconnection charges we paid per minute (exclusive of value-added taxes) to mobile operators for landline to mobile calls:

	Effective Starting		
	January 1, 2012	January 1, 2013	January 1, 2014
SK Telecom	₩27.1	₩26.3	₩22.2
LG U+	28.2	27.0	22.8

Since September 2004, the usage charges per minute collected from a landline user for a call initiated by a landline user to a mobile service subscriber are ₩87.0 during weekdays, ₩82.0 during weekends and ₩77.2 during evenings (defined as 12:00 a.m. to 6:00 a.m. every day). We recognize as land-to-mobile interconnection revenue the entire amount of the usage charge collected from the landline user and recognize as expense the amount of interconnection charge paid to the mobile service provider.

Land-to-land and Mobile-to-land Interconnection. For a call initiated by a landline subscriber of our competitor to our fixed-line user, the landline service provider collects from its subscriber its normal rate and remits to us a land-to-land interconnection charge. In addition, for a call initiated by a mobile service subscriber to our landline user, the mobile service provider collects from its subscriber its normal rate and remits to us a mobile-to-land interconnection charge.

The following table shows such interconnection charge per minute collected for a call depending on the type of call, as determined by the KCC:

	Effective Starting		
	January 1, 2012	January 1, 2013	January 1, 2014
Local access ⁽¹⁾	₩15.5	₩14.6	₩13.3
Single toll access ⁽²⁾	17.4	16.7	14.7
Double toll access ⁽³⁾	20.3	19.9	17.1

Source: The KCC.

- (1) Interconnection between local switching center and local access line.
- (2) Interconnection involving access to single long-distance switching center.
- (3) Interconnection involving access to two long-distance switching centers.

Internet Services

Broadband Internet Access Service. We offer broadband Internet access service that primarily uses existing telephone lines to provide both voice and data transmission. We charge monthly fixed fees to customers of broadband Internet service. In addition, we charge customers a one-time installation fee per site of ₩30,000 and modem rental fee of up to ₩8,000 on a monthly basis.

The following table summarizes our charges for our representative broadband Internet service plans:

	Maximum Service Speed	Monthly Fee
olleh Internet Special ^{(1) (8)}	100 Mbps	₩ 36,000
olleh Internet Lite ⁽¹⁾⁽⁸⁾	50 Mbps	30,000
olleh GiGA Internet ⁽⁸⁾	1 Gbps	50,000
olleh GiGA Internet Compact ⁽⁸⁾	500 Mbps	42,000
WiBro 10G ^{(2) (8)}	40 Mbps (for downloading) / 12 Mbps (for uploading)	10,000
WiBro 20G ^{(3) (8)}	40 Mbps (for downloading) / 12 Mbps (for uploading)	20,000
WiBro 30G ^{(4) (8)}	40 Mbps (for downloading) / 12 Mbps (for uploading)	30,000
WiBro 50G ^{(5) (8)}	40 Mbps (for downloading) / 12 Mbps (for uploading)	40,000
WiBro Hybrid 10G ^{(6) (8)}	40 Mbps (for downloading) / 12 Mbps (for uploading) / LTE Mode : 6 Mbps (downloading and uploading)	20,000
WiBro Hybrid 20G ^{(7) (8)}	40 Mbps (for downloading) / 12 Mbps (for uploading) / LTE Mode : 6 Mbps (downloading and uploading)	30,000

- (1) We waive the installation fee of ₩30,000 for mandatory subscription periods of one to three years.
- (2) We charge a monthly fee of ₩10,000 for up to 10,000 megabytes of data transmission and ₩10 per megabyte for any additional data transmission in excess of 10,000 megabytes per month.
- (3) We charge a monthly fee of ₩20,000 for up to 20,000 megabytes of data transmission and ₩10 per megabyte for any additional data transmission in excess of 20,000 megabytes per month.
- (4) We charge a monthly fee of ₩30,000 for up to 30,000 megabytes of data transmission and ₩10 per megabyte for any additional data transmission in excess of 30,000 megabytes per month.
- (5) We charge a monthly fee of ₩40,000 for up to 50,000 megabytes of data transmission and ₩10 per megabyte for any additional data transmission in excess of 50,000 megabytes per month.
- (6) We charge a monthly fee of ₩20,000 for up to 10,000 megabytes of data transmission and no additional data may be used afterwards.
- (7) We charge a monthly fee of ₩30,000 for up to 20,000 megabytes of data transmission and no additional data may be used afterwards.
- (8) Various discounts and promotional rates are available depending on the time of subscription and the minimum subscription contract, which may reduce the actual monthly fee paid.

olleh TV Services. We charge our subscribers an installation fee per site of ₩24,000, which is waived with a three-year contract, a set-top box rental fee ranging from ₩2,000 to ₩9,000 on a monthly basis and a monthly subscription fee. The rates we charge for olleh TV services are subject to approval by the MSIP.

The following table summarizes charges for our representative olleh TV service plans:

	Real-time Broadcasting Channels	Monthly Fee ⁽¹⁾
olleh TV Live Choice ⁽²⁾	94	₩ 10,000
olleh TV Live Education ⁽³⁾	68	10,000
olleh TV Live 10 ⁽⁴⁾	193	15,000
olleh TV Live 15 ⁽⁴⁾	214	23,000
olleh TV Live 25 ⁽⁴⁾	214	36,000
olleh TV Live 34 ⁽⁴⁾	214	50,000
olleh TV SkyLife All-right ⁽⁵⁾	162	14,000
olleh TV SkyLife Economy ⁽⁵⁾	169	20,000
olleh TV SkyLife Standard ⁽⁵⁾	176	25,000
olleh TV SkyLife Premium ⁽⁵⁾	180	30,000
olleh TV Mobile ⁽⁶⁾	70	5,000

- (1) We typically provide discounts of 5% to 20% for a mandatory subscription periods ranging from one to three years. For olleh TV SkyLife subscribers, we provide discounts of 20% for mandatory subscription period of three years.
- (2) Assuming selection of one package. Subscribers must choose at least one channel package, each of which charges a monthly fee of ₩2,000. The packages include media, leisure and education and multi-room.
- (3) Assuming selection of one package. Subscribers must choose at least one Video-On-Demand package, each of which charges a monthly fee of ₩2,000. The packages include elementary school, middle/high school and English education.
- (4) IPTV packages which combine 50 to 80 standard television channels with video-on-demand services, as well as other movie and streaming video channels.
- (5) For subscription to olleh TV SkyLife service, installation fee is waived for a mandatory subscription period of three years.
- (6) Product for N-Screen (a service which allows purchased content to be displayed on multiple devices) launched in October 2011. The service is offered free of charge if bundled with our Internet, olleh TV and mobile services.

Data Communication Service

We charge customers of domestic leased-lines on a monthly fixed-cost basis based on the distance of the leased line, the capacity of the line measured in bits per second ("bps"), the type of line provided and

whether the service site is local or long-distance. In addition, we charge customers a one-time installation fee per line ranging from ₩56,000 to ₩1,940,000 depending on the capacity of the line.

Bundled Products

We utilize our extensive customer relationships and market knowledge to expand our revenue base by cross-selling our telecommunications products and services. In order to attract additional subscribers to our new services, we bundle our services, such as our broadband Internet access service with IPTV, Internet phone, fixed-line telephone service and mobile services, at a discount.

The following table summarizes our various basic bundled packages that we currently offer. The packages require subscribers to agree to a subscription period of three years:

	Monthly Rates	
	Flat Rate	Mobile Monthly Fee
Internet / Internet Phone / Mobile	₩21,000	Discounts are between ₩ 1,500 and ₩10,000, depending on the mobile fee plan (up to 5 mobile numbers) ⁽²⁾
Internet / Fixed-Line Phone / Mobile.....	24,000	
Internet / IPTV / Mobile ⁽¹⁾	30,000	
Internet / Fixed-Line Phone / IPTV / Mobile ⁽¹⁾	31,000	

(1) Assuming selection of olleh Internet and olleh TV Live 10 package.

(2) Bundled rate plans are available only for olleh LTE subscribers.

We believe that subscribers who sign up for bundled products are less likely to cancel our services than subscribers who subscribe to individual services. Subscription fees paid for our bundled products are allocated to each service in proportion to their fair value and the allocated amount is recognized as revenue according to the revenue recognition policy for each service.

Competition

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 acquired a controlling stake in Hanarotelecom Incorporated in 2008, which was renamed SK Broadband. The acquisition enabled SK Telecom to provide fixed-line telecommunications, broadband Internet access and IPTV services together with its mobile telecommunications services. In January 2010, LG Dacom and LG Powercom merged into LG Telecom Co., Ltd., which subsequently changed its name to LG U+. The merger enabled LG U+ provide a similar range of services as SK Telecom and us.

Under the Framework Act of Telecommunications and the Telecommunications Business Act, telecommunications service providers in Korea are currently classified into network service providers, value-added service providers and specific service providers. See “— Regulation.”

Network Service Providers

All network service providers in Korea are permitted to set the rates for international or domestic long-distance services on their own without the MSIP's approval. Many of our competitors have set their rates lower than ours. Currently, we can compete freely with other providers on the basis of rates in all services except for rates we charge for local calls, which require advance approval from the MSIP. In all service areas, we compete by endeavoring to provide superior customer service and superior technical quality, taking advantage of our broad customer base and our ability to provide various telecommunication services.

We and SK Telecom have been designated as market-dominating business entities in the local telephone service and cellular service markets, respectively, under the Telecommunications Business Act. Under this Act, a market-dominating business entity may not engage in any act of abuse, such as unreasonably interfering with business activities of other business entities, hindering unfairly the entry of newcomers or substantially restricting competition to the detriment of the interests of consumers. The KCC has also issued

guidelines on fair competition of the telecommunications companies. If any telecommunications service provider breaches the guidelines, the KCC may take necessary corrective measures against it after a hearing at which the service provider may defend its action.

Mobile Service. Competition in the mobile telecommunications industry in Korea is intense among SK Telecom, LG U+ and us. Such competition has intensified in recent years due to the implementation of mobile number portability, which enabled mobile subscribers to switch their service provider while retaining the same mobile phone number, as well as payments of handset subsidies to purchasers of new handsets who agree to minimum subscription periods and the recent rollout of fourth-generation mobile services based on LTE technology by SK Telecom, LG U+ and us.

The following table shows the market shares in the mobile telecommunications market as of the dates indicated:

	Market Share (%)		
	KT Corporation	SK Telecom	LG U+
December 31, 2012	30.8	50.3	18.9
December 31, 2013	30.1	50.0	19.9
December 31, 2014	30.3	50.0	19.7

Source: The KCC.

We offer various rate plans, including those that offer a specified number of free airtime minutes per month in return for a higher monthly fee and those that are geared toward business customers. Our competitors also offer similar plans at competitive rates.

Local Telephone Service. We compete with SK Broadband and LG U+ in the local telephone service business. SK Broadband began providing local telephone service in 1999, followed by LG U+ in 2004. In addition, the services provided by mobile service providers have had a material adverse effect on us in terms of our revenues from fixed-line telephone services. We expect this trend to continue.

The following table shows the market shares in the local telephone service market as of the dates indicated:

	Market Share (%)		
	KT Corporation	SK Broadband	LG U+
December 31, 2012	82.8	14.5	2.7
December 31, 2013	81.5	15.6	2.9
December 31, 2014	81.0	16.1	2.9

Source: The KCC.

Although the local usage charge of our competitors and us is the same at ₩39 per pulse (generally three minutes), our competitors' non-refundable telephone service initiation charges are lower than ours. Our customers pay a non-refundable telephone service initiation charge of ₩60,000 while customers of our competitors pay a non-refundable telephone service initiation charge of ₩30,000. Also, the basic monthly charge of our competitors is ₩4,500 compared to our basic charge of ₩5,200.

Domestic Long-distance Telephone Service. We compete with SK Broadband, LG U+, Onse and SK Telink in the domestic long-distance market. LG U+ began offering domestic long-distance service in 1996, followed by Onse in 1999 and SK Broadband and SK Telink in 2004. The following table shows the market shares in the domestic long-distance market as of the dates indicated:

	Market Share (%)				
	KT Corporation	SK Broadband	LG U+	Onse	SK Telink
December 31, 2012	79.2	14.0	3.0	1.1	2.8
December 31, 2013	78.7	14.5	3.0	1.0	2.8
December 31, 2014	78.9	14.9	2.7	0.9	2.7

Source: Korea Telecommunications Operators Association.

Our competitors and we charge ₩39 per three minutes for domestic long-distance calls up to 30 kilometers. For domestic long-distance calls greater than 30 kilometers, our competitors typically charge between 3% to 5% less than us. The following table is a comparison of our standard long-distance usage charges per 10 seconds with the standard rates of our competitors as of December 31, 2014:

	KT Corporation	SK Broadband	LG U+	Onse	SK Telink
30 kilometers or longer	₩14.5	₩13.9	₩14.1	₩13.8	₩13.8

Source: The KCC.

International Long-Distance Telephone Service. Four companies, SK Broadband, LG U+, Onse and SK Telink, directly compete with us in the international long-distance market. LG U+ began offering international long-distance service in 1991, followed by Onse in 1997 and SK Broadband in 2004. SK Telink, which only provides Internet phone service, entered the international long-distance market in 2003 and offers its services at rates lower than those for network-based international long-distance telephone services. The entry of Internet phone service providers and other telecommunications service providers, such as voice resellers, that can offer telecommunications services at rates lower than ours has increased competition in the international long-distance market and adversely affected our revenues and profitability from international long-distance services. See “— Specific Service Providers.”

Our competitors generally charge less than us for international long-distance calls. The following table is a comparison of our standard long-distance usage charges per one minute with the standard rates of our competitors as of December 31, 2014:

	KT Corporation	SK Broadband	LG U+	Onse	SK Telink
United States	₩282	₩276	₩288	₩276	₩204
Japan.....	696	672	678	672	498
China	990	984	996	984	834
Australia.....	1,086	1,044	1,086	1,044	810
Great Britain	1,008	966	996	966	756
Germany.....	948	912	942	912	672

Source: KT Corporation.

Broadband Internet Access Service. The Korean broadband Internet access market has experienced significant growth in the past decade. SK Broadband entered the broadband market in 1999 offering both HFC and ADSL services, and we entered the market with our ADSL services in 1999, followed by Dreamline, Onse and LG U+. In addition, the entry of cable television providers that offer HFC-based broadband Internet access services at rates lower than ours has increased competition in the broadband Internet access market. We expect industry consolidation among our competitors in the near future, and smaller competitors in the broadband market today may become larger competitors.

The following table shows the market share in the broadband Internet access market as of the dates indicated:

	Market Share (%)			
	KT Corporation	SK Broadband	LG U+	Others
December 31, 2012	44.0	24.1	15.0	16.9
December 31, 2013	43.1	24.4	15.6	16.9
December 31, 2014	42.3	25.1	15.7	16.9

Source: The KCC.

Our competitors generally charge less than us for broadband Internet access service. The following table is a comparison of fees for our olleh Internet Lite service with three year mandatory subscription period with fees of our competitors for comparable services as of December 31, 2014:

	KT Corporation	SK Broadband	LG U+	Cable Providers ⁽¹⁾
Monthly subscription fee	₩ 25,500	₩ 25,000	₩ 25,000	₩ 20,000
Monthly modem rental fee.....	None	None	None	1,000
Additional installation fee upon moving	10,000	10,000	20,000	20,000

Source: KT Corporation.

(1) These are typical fees charged by cable providers.

Data Communication Service. We had a monopoly in domestic data communication service until 1994, when LG U+ was authorized to provide the leased-line service. The data communications service market has become more competitive with limited growth during the past decade, and we primarily compete with SK Broadband and LG U+.

Value-Added Service Providers

Value-added service providers may commence operations following filing of a report to the MSIP. The scope of business of a value-added service provider includes specific value-added telecommunications activities (other than services reserved for network service providers), such as data communications utilizing telecommunications facilities leased from network service providers.

Specific Service Providers

Specific service providers, such as Internet phone service providers and voice resellers, started operations in Korea in 1998. We began providing Internet phone service for international long-distance calls in May 1998. Our Internet phone service also competes with international long-distance services provided by voice resellers who have also seen sharp increases in demand for their services.

Regulation

With the establishment of the MSIP in March 2013, many of the regulatory responsibilities formerly handled by the KCC have been transferred to the MSIP. Under the Framework Act of Telecommunications and the Telecommunications Business Act, the MSIP now has comprehensive regulatory authority over the telecommunications industry and all network service providers.

The MSIP has assumed primary policy and regulatory responsibility for matters such as: (i) licensing of network service providers (the MSIP authorizes the licensing of IPTV service providers and, with the consent of the KCC, authorizes the licensing of satellite broadcasting companies); (ii) regulation of mergers and acquisitions, as well as license suspension and termination of network service providers; (iii) providing oversight on foreign ownership ratios in network service providers; and (iv) reviewing telecommunication matters as they relate to the public interest and approving ancillary telecommunication business activities. Additionally, the MSIP is responsible for a broad range of other policy and regulatory matters, including the administration and supervision of regulatory reporting by telecommunications companies, examination and analysis of accounting and business management practices in the industry, establishing and administering policies governing telecommunications service fees, value-added service providers and specific service providers, as well as supervising reporting requirements of standard telecommunications service/user contracts.

Under the revised supervisory framework, a network service provider must be licensed by the MSIP. Our license as a network service provider permits us to engage in a wide range of telecommunications services.

The KCC's overall policy role is to play a key role in regulatory activities aimed at protecting service users in the broadcast and telecommunications market and it continues to be responsible for investigations and sanctions regarding violations by telecommunications companies, as well as for mediating disputes between service providers and users. The KCC is established under the direct jurisdiction of the President and is comprised of five standing commissioners. Commissioners of the KCC are appointed by the President, and the appointment of the Chairperson must be approved at a confirmation hearing at the National Assembly.

Under the Use and Protection of Credit Information Act, telecommunications service providers are also required to disclose personal credit information of their customers only for the purpose of validating and maintaining telecommunications service agreements. Korean telecommunications service providers may use their customers' credit information only to the extent allowed by the Use and Protection of Credit Information Act, which has gained greater importance in recent years due to the occurrence of personal information leakage incidents.

The MSIP also has the authority to regulate the IP media market, including IPTV services. We began offering IPTV services with real-time high definition broadcasting in November 2008. Under the Internet Multimedia Broadcasting Business Act, anyone intending to engage in the IP media broadcasting business must obtain a license from the MSIP. The ownership of the shares of an IP media broadcasting company by a newspaper, a news agency or a foreigner is limited. In March 2015, amendments to the Internet Multimedia Broadcasting Business Act were passed at a plenary session of the National Assembly, which will become effective three months after it is promulgated, unless the President of Korea vetoes the amendments. Under such amendments, which will be in effect until June 2018, a single broadcasting operator may not have more than one-third of the market share of all paid broadcasting subscribers in Korea.

Rates

Under current regulations implementing the Telecommunications Business Act, a network service provider may set its rates at its discretion, although it must report to the MSIP the rates and the general terms and conditions for each type of network service provided by it. There is, however, one exception to this general rule: 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 MSIP, it must obtain prior approval from the MSIP for the rates and the general terms for that service. Each year the MSIP designates the service providers and the types of services for which the rates and the general terms must be approved by the MSIP. In 2013, the MSIP designated us for local telephone service and SK Telecom for mobile service, which currently remains in effect. The MSIP, in consultation with the Ministry of Strategy and Finance, is required to approve the rates proposed by a network service provider if (1) the proposed rates are appropriate, fair and reasonable and (2) the calculation method for the rates are appropriate and transparent.

On October 1, 2014, the Mobile Device Act, which seeks to lower the cost of communication and reduce handset factory prices by establishing fair and transparent order in the distribution of mobile telecommunication devices, went into effect. The Mobile Device Act regulates, inter alia, the sale and subsidies of mobile devices such as smartphones, with one of its purposes being to induce telecommunication operators to compete in lowering the costs of communications and encourage the manufacturers to reduce handset factory prices, while improving service quality. Under the Mobile Device Act, consumers may not be discriminated in terms of subsidies based on their age, place of residence or monthly subscription plan when using their existing mobile phones, buying a new phone or switching their mobile carriers. Furthermore, everyone, regardless of their status, is entitled to receive either a handset subsidy for the purchase of mobile phone models that were launched within the last 15 months, or a tariff discount (with the current discount rate set at 20%, effective as of April 24, 2015). The maximum amount of handset subsidy that telecommunications operators and handset manufacturers may offer is determined by Korean telecommunication regulators (such limit to be determined between ₩250,000 and ₩350,000, and may be adjusted every six months, with the current limit set at ₩330,000, effective as of April 8, 2015). Telecommunications operators are also required to publicly announce the amount of handset subsidy that they offer, which may not be readjusted within one week after such announcement. In addition, telecommunications operators are prohibited from using misleading or exaggerated advertisements, such as advertisements that mobile phones are free without adequately explaining that it is preconditioned on signing up for high-priced monthly subscription plans.

Other Activities

A network service provider, such as us, must obtain the permission of the MSIP in order to:

- engage in certain businesses specified under the Telecommunications Business Act, such as the telecommunications equipment manufacturing business and the telecommunications network construction business;
- change the conditions for its licenses;
- transfer, terminate, suspend or spin off all or a part of the business for which it is licensed;
- acquire all or a part of the business of another network service provider; or
- enter into a merger with another network service provider.

By submitting a report to the MSIP, a network service provider may enter into arrangements for services to be furnished to its customers by a different telecommunications service provider and, in connection therewith, may provide its telecommunications services to, or authorize the use of all or a portion of its telecommunications facilities by, such other telecommunications service provider. The MSIP can revoke our licenses or order the suspension of any of our businesses if we do not comply with the regulations of the MSIP under the Telecommunications Business Act.

In May 2010, the KCC issued a guideline that limits the marketing expenditure amounts of telecommunication service providers in Korea to 20% of their revenues, with the restrictions applicable to fixed-line and mobile segments to be calculated separately. However, as of October 2013, up to ₩100 billion of the marketing expenditures may be applied to either segment at the discretion of the service provider. The calculation of marketing expenditure amounts under the guideline excludes advertising expenses and the calculation of revenue amounts excludes revenues from handset sales. The MSIP may adjust the guideline to accommodate changes in market conditions.

The responsibilities of the MSIP include:

- drafting and implementing plans for developing telecommunications technology;
- fostering and providing guidance to institutions and entities that conduct research relating to telecommunications; and
- recommending to network service providers that they invest in research and development or that they contribute to telecommunications research institutes in Korea.

In addition, all network service providers (other than regional paging service providers) are obligated to contribute toward the supply of “universal” telecommunications services in Korea. Telecommunications service providers designated as “universal service providers” by the MSIP are required to provide universal telecommunications services such as local services, local public telephone services, discount services for persons with disabilities and for certain low-income persons, telecommunications services for remote islands and wireless communication services for ships. We have been designated as a universal service provider. The costs and losses recognized by universal service providers in connection with providing these universal telecommunications services will be shared on an annual basis by all network service providers (other than regional paging service providers), including us, on a pro rata basis based on their respective net annual revenue calculated pursuant to a formula set by the MSIP.

A network service provider must permit other network service providers, as designated by the MSIP, to co-use wirelines connecting the switching equipment to end-users, upon the request of such other network service providers. In addition, a network service provider may permit other network service providers to co-use its wireless communication systems upon the request of any of such other network service providers. The compensation method for the co-use must be determined by the MSIP and be settled, by fair and proper methods.

In addition, we are required to lease to other companies our fixed-lines that connect subscribers to our network. This system, which is called local loop unbundling, is intended to prevent excessive investment in local loops. This system requires us to lease the portion of our copper lines that represent our excess capacity to other companies upon their request at rates that are determined by the MSIP based on our cost, and taking into consideration an appropriate rate of return, to enable them to provide voice and broadband services. Revenues from local loop unbundling, if any, are recognized as revenues from miscellaneous businesses.

Foreign Investment

The Telecommunications Business Act restricts the ownership and control of network service providers by foreign shareholders. Foreigners, foreign governments and “foreign invested companies” may not own more than 49.0% of the issued shares with voting rights of a network service provider, including us, and a foreign shareholder may not become our largest shareholder if such shareholder holds 5.0% or more of our shares. For purposes of the Telecommunications Business Act, the term “foreign invested company” means a company in which foreigners and foreign governments hold 15.0% or more shares with voting rights in the aggregate and a foreigner or a foreign government is the largest shareholder, provided, however, that such company will not be counted as a foreign shareholder for the purposes of the above-referenced 49.0% limit if (1) it holds less than 1.0% of our total issued and outstanding shares with voting rights or (2) if the largest shareholder of such company is a government or foreign entity of a country that is a counterparty to a free trade agreement with Korea, as publicly announced by the MSIP, and the MSIP determines that the fact that such foreign government or entity holds a 15.0% or greater shareholding in such company does not present a risk of harm to the public interest. (However, the calculation of the above-referenced 49% ceiling will apply to: (x) any foreign entities that have entered into any major management-related agreement with a network service provider or the shareholder(s) thereof; and (y) foreign entities that have entered into any agreement pertaining to the settlement of fees relating to the handling of international electronic telecommunications services). As of December 31, 2014, 45.3% of our common shares were owned by foreign investors. In the event that a network service provider violates the shareholding restrictions, its foreign shareholders cannot exercise voting rights for their shares in excess of such limitation, and the MSIP may require corrective measures be taken to comply with the ownership restrictions. There is no restriction on foreign ownership for specific service providers and value-added service providers.

Individual Shareholding Limit

Under the Telecommunications Business Act, a foreign shareholder who holds 5.0% or more of our total shares is prohibited from becoming our largest shareholder. However, any foreign shareholder who held 5.0% or more of our total shares and was our largest shareholder on or prior to May 9, 2004 is exempt from the regulations, provided that such foreign shareholder may not acquire any more of our shares. In addition, under the Telecommunications Business Act, the MSIP may, if it deems it necessary to preserve substantial public interests, prohibit a foreign shareholder from being our largest shareholder. In the event that any foreigner or foreign government acquires our shares in violation of the above provisions, the Telecommunications Business Act restricts such foreign shareholder from exercising his or her voting rights with respect to common shares exceeding such threshold. The MSIP may also order us or the foreign shareholder to take corrective measures in respect of the excess shares within a specified period of six months or less.

Customers and Customer Billing

We typically charge residential subscribers and business subscribers similar rates for services provided. On a case-by-case basis, we also provide discount rates for some of our high-volume business subscribers. We bill all of our customers on a monthly basis. Our customers may make payment at either payment points such as local post offices, banks or our service offices, through a direct-debit service that automatically deducts the monthly payment from a subscriber’s designated bank account, or through a direct-charge service that automatically charges the monthly payment to a subscriber’s designated credit card account. Approximately 79% of our subscribers as of December 31, 2014 pay through the direct-debit service. Accounts of subscribers who fail to pay our invoice are transferred to a collection agency, which sends out a notice of payment. If such charges are not paid after notice, we cease to provide outgoing service to such subscribers after a period of time determined by the type of subscribed service. If charges are still not paid two to three months after outgoing service is cut off, we cease all services to such subscribers. After service is ceased, the overdue charges that are not collected by the collection agency are written off.

Insurance

We carry insurance against loss or damage to all significant buildings and automobiles. Except for our insurance coverage of our satellites and Internet data centers, we do not carry insurance covering losses to outside plants or to equipment because we believe the cost of such insurance is excessive and the risk of material loss or damage is insignificant. We do not have any provisions or reserves against such loss or damage. We do not carry any business interruption insurance.

We provide co-location and a variety of value-added services including server-hosting services to a number of corporations whose business largely depends on critical data operated on our servers or on their servers located at our data centers. Any disruptions, interruptions, physical or electronic data loss, delays or

slowdowns in communication connections could expose us to potential liabilities for losses relating to the disrupted businesses of our customers relying on our services.

Information Technology and Operational Systems

Enhancement of our information technology and operational systems and efficient utilization of such systems are important in effectively promoting our core strategies. We are committed to continually investing in and enhancing our information technology systems, which provide support to many aspects of our businesses. In order to respond more effectively to a changing business environment, a new enterprise resource planning system (the "New ERP System") was completed and implemented during the second half of 2012. The New ERP System has contributed to enhancing various aspects of our internal processes and control systems, and we are establishing various plans to effectively utilize the New ERP System and to stabilize our internal control processes in connection with the New ERP System.

Legal Proceedings

In July 2012, the Fair Trade Commission issued to us an administrative fine of approximately ₩5 billion as well as certain corrective orders, after investigating certain pricing and subsidy practices of mobile service carriers and handset manufacturers. Samsung Electronics Co., Ltd., LG Electronics Co., Ltd., Pantech Curitel Co., Ltd., SK Telecom and LG U+ were also issued administrative fines as a result of the investigation. We filed for a stay of execution of the Fair Trade Commission's decision, and in September 2012, the Seoul High Court granted a stay of execution with respect to the corrective order, and denied the stay of execution with respect to the administrative fine. We paid the entire fine in September 2012. In September 2012, we filed a lawsuit with the Seoul High Court against the Fair Trade Commission to appeal the administrative fine and the corrective order, and on February 6, 2014, the Seoul High Court ruled against us on our appeal. In February 2014, we filed another appeal with respect to the administrative fine with the Supreme Court of Korea and filed for a stay of execution with respect to the corrective order in March 2014, which was accepted and became effective in April 2014. The appeal is currently ongoing. The outcome of this case will not result in any fine in addition to the fine we already paid in September 2012.

Based on investigations conducted in December 2012 and January 2013, the KCC imposed a combined fine of approximately ₩12 billion on SK Telecom, LG U+ and us in January 2013 (our fine being approximately ₩2.9 billion), for providing subsidies that were higher than those allowed under current regulations to new mobile phone purchasers and subscribers, and also imposed temporary suspensions from recruiting new subscribers ranging from 20 days to 24 days. In March 2013, the KCC again imposed a combined fine of approximately ₩5 billion on SK Telecom, LG U+ and us (our fine being approximately ₩1.6 billion) for continuing to offer subsidies during the suspension period. In July 2013, the KCC imposed a combined fine of approximately ₩67 billion on SK Telecom, LG U+ and us (our fine being approximately ₩20 billion) and also imposed a seven day suspension on us from recruiting new subscribers, also in connection with providing excessive handset subsidies to new subscribers. In December 2013, the KCC again imposed a combined fine of approximately ₩106 billion on SK Telecom, LG U+ and us (our fine being approximately ₩30 billion), which is the largest fine ever imposed by the KCC on local mobile operators for providing excessive subsidies to new subscribers. On March 7, 2014, the MSIP imposed a temporary suspension on us for 45 days (from March 13, 2014 to April 26, 2014), SK Telecom for 45 days (from April 5, 2014 to May 19, 2014), and LG U+ for 45 days (from March 13, 2014 to April 4, 2014 and again from April 27, 2014 to May 18, 2014) from recruiting new subscribers as a result of continuing to offer excessive handset subsidies to new subscribers, despite the order from the KCC prohibiting such subsidies. Additionally, the MSIP announced that it plans to bring criminal charges with fines of up to ₩150 million and imprisonment of less than three years against any carrier and responsible personnel that fails to adhere to the suspension or continues to offer illegal subsidies after the suspension is completed. In August 2014, the KCC imposed a fine of approximately ₩58 billion on SK Telecom, LG U+ and us (our fine being approximately ₩11 billion) for continuing to provide excessive subsidies to new subscribers. In December 2014, the KCC further imposed a fine of approximately ₩8 billion on each of SK Telecom, LG U+ and us for providing excessive handset subsidies and in March 2015 the KCC again imposed a combined fine of approximately ₩34 billion on SK Telecom, LG U+ and us (our fine being approximately ₩9 billion) for violation of regulations relating to handset sales, in connection with a used handset buyback program that we and the other telecommunications operators were promoting. We have paid all of such fines as of the date hereof.

In July 2012, the police arrested two individuals in connection with the alleged theft of personal information relating to approximately 8.7 million of our mobile phone subscribers. The individuals in question stole personal information through a series of hackings starting from February 2012 into our N-STEP. Since the

incident, approximately 29,800 of our mobile phone subscribers filed a total of 15 lawsuits against us in connection with the N-STEP hackings, alleging that we failed to protect their personal information, and are seeking total damages of approximately ₩15 billion. From August 2014 to January 2015, various district courts have awarded damages of ₩100,000 per plaintiff for 11 of the cases involving a total of approximately 29,000 of the subscribers, resulting in damages of approximately ₩3 billion to us, while the remaining trials are currently ongoing at various district courts. We have appealed the district courts' decisions and the appeals are currently ongoing at the Seoul High Court.

Furthermore, in March 2014, the police arrested three individuals in connection with their alleged theft of personal information relating to approximately 9.8 million of our subscribers. The individuals in question stole the personal information of our subscribers through a series of hackings into our main homepage starting from February 2014. Since the incident, approximately 13,450 subscribers filed 18 lawsuits against us in connection with the information theft, seeking total damages of approximately ₩7 billion. The trials are currently ongoing at various district courts. In June 2014, we were fined ₩85 million by the KCC and were ordered to take corrective measures in connection with the most recent hacking incident. We filed an administrative appeal in August 2014 in connection with the KCC fine, and the appeal is currently ongoing at the Seoul Administrative Court.

In December 2013, the MSiP declared that the contract over our sale of Koreasat 3 was null and void, on the grounds that the satellite was sold without obtaining proper government approval. We are currently involved in an arbitration proceeding against ABS pursuant to the Rules of the International Chamber of Commerce over the Koreasat 3 satellite ownership and contract violation claims.

We are a defendant in various other court proceedings involving claims for civil damages arising in the ordinary course of our business. As of December 31, 2014, we have established provisions relating to litigations of ₩20 billion, of which ₩4 billion related to the litigations involving the hacking incidents. See Note 17 to the Consolidated Financial Statements. While we are unable to predict the ultimate disposition of these claims, in the opinion of our management, the ultimate disposition of these claims will not have a material adverse effect on our business, financial condition and results of operations.

Dividends

The table below sets out the annual dividends declared on the outstanding common stock to shareholders of record on December 31 of the years indicated and the interim dividends declared on the outstanding common stock to shareholders of record on June 30 of the years indicated:

Year	Annual Dividend per Common Stock	Interim Dividend per Common Stock	Average Total Dividend per Common Stock
	(In Won)	(In Won)	(In Won)
2010	2,410	—	2,410
2011	2,000	—	2,000
2012	2,000	—	2,000
2013	800	—	800
2014	—	—	—

If sufficient profits are available, the Board of Directors may propose annual dividends on the outstanding common stock, which our shareholders must approve by a resolution at the ordinary general meeting of shareholders. This meeting is generally held in March of the following year and if our shareholders at such ordinary general meeting of shareholders approve the annual dividend, we must pay such dividend within one month following the date of such resolution. Typically, we pay such dividends shortly after the meeting. The declaration of annual dividends is subject to the vote of our shareholders, and consequently, there can be no assurance as to the amount of dividends per common stock or that any such dividends will be declared. Interim dividends paid in cash can be declared by a resolution of the board of directors.

The Commercial Code provides that shares of a company of the same class must receive equal treatment. However, major shareholders may consent to receive dividend distributions at a lesser rate than minor shareholders. Previously, the Government consented to receiving a smaller dividend compared to other shareholders. The Government no longer holds any interest in us.

Any cash dividends relating to the shares held in the form of ADSs will be paid to the depositary bank in Won. The deposit agreement provides that, except in certain circumstances, cash dividends received by the depositary bank will be converted by the depositary bank into Dollars and distributed to the holders of the ADRs, less withholding tax, other governmental charges and the depositary bank's fees and expenses.

Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Branch Offices

As of December 31, 2014, we had 182 branch offices located throughout Korea.

Acquisition of Own Shares

The following table sets forth the repurchases of common shares by us or any affiliated purchasers during the fiscal year ended December 31, 2014:

Period	Total Number of Shares Purchased	Average Price Paid per Share (In Won)	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet be Purchased Under the Plans
January 1 to January 31	—	—	—	—
February 1 to February 29	—	—	—	—
March 1 to March 31.....	—	—	—	—
April 1 to April 30	—	—	—	—
May 1 to May 31	—	—	—	—
June 1 to June 30.....	—	—	—	—
July 1 to July 31.....	—	—	—	—
August 1 to August 31	—	—	—	—
September 1 to September 30.....	—	—	—	—
October 1 to October 31	—	—	—	—
November 1 to November 30.....	—	—	—	—
December 1 to December 31.....	—	—	—	—
Total	—	—	—	—

Neither we nor any affiliated purchaser purchased any of our equity securities during the period covered by this annual report.

III. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

1. Operating Results

The following discussion and analysis is based on our consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB.

Overview

We are an integrated provider of telecommunications services. Our principal services include mobile service and fixed-line services, including fixed-line telephone services, broadband Internet access service and data communication service. The principal factors affecting our revenues from these services have been our rates for, and the usage volume of, these services, as well as the number of subscribers. In addition, we derive revenues from handset sales and non-telecommunications services, including financial services. In 2014, we determined our operating segments for financial reporting purposes as (i) the Customer/Marketing Group, which engages in providing various telecommunication services to individual/home customers and the convergence business, (ii) the Enterprise Sales Group, which engages in telecommunication services for the global market and corporate customers, as well as data communication service, (iii) the Finance/Rental Business Group, which engages in providing various financial services such as credit card and lending, and also engaged in the automobile rental and leasing business (an agreement to sell KT Rental to the Lotte Group for approximately ₩1.02 trillion (with estimated proceeds to KT Corporation being approximately ₩772 billion) was entered into in March 2015, and the sale is expected to be completed in May 2015) and (iv) others, which include security services, satellite service, information technology and network services, satellite TV service and real estate development businesses. We renamed our operating segments in 2014 in line with our current organizational structure. See Note 33 to the Consolidated Financial Statements.

One of the major factors contributing to our historical performance was the growth of the Korean economy, and our future performance will depend at least in part on Korea's general economic growth and prospects. A number of other developments have had or are expected to have a material impact on our results of operations, financial condition and capital expenditures. These developments include:

- acquisitions and disposals of interests in subsidiaries and joint ventures;
- employee reductions and changes in severance and retirement benefits;
- acquisition of new bandwidths and usage fees for such bandwidths;
- changes in the rate structure for our services;
- handset subsidies; and
- researching and implementing technology upgrades and additional telecommunication services.

As a result of these factors, our financial results in the past may not be indicative of future results or trends in those results.

Acquisitions and Disposals of Interests in Subsidiaries and Joint Ventures

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, as well as disposal or termination of such businesses from time to time. The following summarizes our recent acquisitions and disposals:

- in October 2011, we, through our subsidiary KT Capital Co., Ltd., acquired an additional 1,622,520 common shares of BC Card Co., Ltd. from Woori Bank, Busan Bank and Shinhan Card for approximately ₩252 billion, to further diversify our business and to create synergies through utilization of our mobile telecommunications network in financial services, thereby increasing our ownership interest in BC Card Co., Ltd. to 38.86%, making it our consolidated subsidiary as a result of deemed control starting in October 2011. We acquired an additional

1,349,920 common shares of BC Card Co., Ltd. in January 2012 for approximately ₩287 billion, and owned a 69.54% interest in BC Card Co., Ltd. as of December 31, 2014.

- starting in July 2012, KT Rental Co., Ltd., our then-58.0% owned subsidiary, became our consolidated subsidiary as a result of the acquisition of KT Rental's common stock by Hana Daetoo Securities Co., Ltd. and other investors from the then-second largest shareholder in July 2012, and the restriction on our control over KT Rental pursuant to a shareholders' agreement being resolved as a result. An agreement to sell KT Rental to the Lotte Group for approximately ₩1.02 trillion (with estimated proceeds to KT Corporation being approximately ₩772 billion) was entered into in March 2015, and the sale is expected to be completed in May 2015.
- in October 2014, we acquired 4,000,000 treasury shares of ktis Corporation, an equity-method investee which provides telephone number directory services, for approximately ₩36 billion, thereby increasing our ownership interest to 29.3% as of December 31, 2014 and making it our consolidated subsidiary as a result of deemed control starting from October 2014. See Note 39 to the Consolidated Financial Statements.
- in October 2014, we, through our subsidiary KT Hitel Co., Ltd., acquired 4,800,000 treasury shares of ktcs Corporation, an equity-method investee which provides telephone number directory services, for approximately ₩37 billion, thereby increasing our ownership interest to 30.3% as of December 31, 2014 and making it our consolidated subsidiary as a result of deemed control starting from October 2014. See Note 39 to the Consolidated Financial Statements.

Our financial condition and results of operations may be affected as a result of such acquisitions, disposals or consolidation. Furthermore, 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 by incurring loans or through the issuances of bonds or other securities in the international capital markets, which may lead to increased levels of debt and debt servicing costs in the future.

Employee Reductions and Changes in Severance and Retirement Benefits

We regularly sponsor voluntary early retirement plans where we provide additional financial incentives for our employees to retire early, as part of our efforts to improve operational efficiencies. In April 2014, in addition to our usual voluntary early retirement plan, we held a special voluntary early retirement program where we provided employees who had been employed by us for more than 15 years with additional financial incentives to retire early or employment for two years at certain of our subsidiaries or affiliates. The special voluntary early retirement program resulted in the early retirement of 8,304 employees. In aggregate, 8,345 employees retired in 2014 under the voluntary early retirement plan and the special voluntary early retirement program. In 2012 and 2013, 183 and 269 employees, respectively, retired under our voluntary early retirement plan. We paid approximately ₩1.3 trillion as post-employment benefits in connection with this special early retirement program.

Acquisition of New Bandwidth and Usage Fees for Such Bandwidths

One of the principal limitations on a wireless network's subscriber capacity is the amount of bandwidth spectrum allocated to the service provider. 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 content is likely to put additional strain on the bandwidth capacity of mobile service providers. We have acquired various licenses in recent years to secure additional bandwidth capacity to provide our broad range of services, for which we typically pay a portion of the actual sales generated from using the bandwidth during the license period as a usage fee, as well as a portion of expected sales as determined by the KCC at the time of allocation.

In August 2013, the Ministry of Science, ICT and Future Planning further auctioned 50 MHz of bandwidth in the 1.8 GHz spectrum, which had been used by governmental entities such as the military, and 80 MHz of bandwidth in the 2.6 GHz spectrum, which had been used for digital multimedia broadcasting services. We acquired the right to use 15 MHz of bandwidth in the 1.8 GHz spectrum, for which we are required to pay a total usage fee of approximately ₩900 billion during a license period of eight years. SK Telecom acquired the right to use 35 MHz of bandwidth in the 1.8 GHz spectrum and LG U+ acquired the right to use 40 MHz of bandwidth in the 2.6 GHz spectrum. In September 2013, we commenced providing wideband LTE services, which utilizes our

adjoining 20 MHz of bandwidth in the 1.8 GHz spectrum to provide transmission speed of up to 150 Mbps, twice faster than those offered under standard LTE services. SK Telecom also began providing its wideband LTE services in September 2013 and LG U+ commenced providing its wideband LTE services in January 2014. In March 2014, our wideband LTE services covered five metropolitan cities in Korea, and we expanded our wideband LTE services to all of Korea in July 2014. As of December 31, 2014, the number of our LTE subscribers exceeded 10.5 million. Furthermore, in March 2014, we commercialized Wideband LTE-A services, which interconnects our 20 MHz of bandwidth in the 1.8 GHz spectrum used to offer wideband LTE services with the 10 MHz of bandwidth in the 900 MHz spectrum used to offer standard LTE services by utilizing inter-band carrier aggregation technology to support transmission speed of up to 225 Mbps, and began additionally interconnecting 10 MHz of bandwidth in the 2.1 GHz spectrum in January 2015 to support transmission speed of up to 300 Mbps under the "Wideband LTE-A X4" service.

Changes in the Rate Structure for Our Services

Periodically, we adjust our rate structure for our services. For example, we completely abolished our mobile activation fee in March 2015 in line with government policy objectives. In order to mitigate the impact from lower usage charges of local and domestic long-distance calls, we have increased our basic monthly charges and offer various optional flat rate plans for our fixed-line subscribers. Such adjustments in the rate structure have increased the portion of fixed income and stabilized our cash flow. In addition, because the growing use of mobile telecommunications services has decreased the usage of our fixed-line telephone services, we believe we are able to maximize our revenues from fixed-line telephone services by adjusting the rate structure so as to increase our basic monthly charges. We also provide bundled packages of our various services at a discount in order to attract additional subscribers to our new services. We currently bundle our broadband Internet access service with IPTV, Internet phone, fixed-line telephone service, WiBro, and mobile services, at a discount.

The MSIP, in consultation with the Ministry of Strategy and Finance, currently approves rates charged by us for local telephone service. In addition, the MSIP currently does not regulate our domestic long-distance, international long-distance, broadband internet access and mobile service rates, but it periodically announces public policy guidelines or suggestions on tariffs for non-regulated services, which we have followed in the past.

Handset Subsidies

In March 2008, the Government removed a prohibition on the provision of handset subsidies and allowed mobile service providers to subsidize the purchase of new handsets by certain qualifying customers. In order to compete more effectively, we began providing such handset subsidies, which increased, and may in the future increase, our marketing expenses. We provide handset subsidies to subscribers who agree to use our service for a predetermined service period and purchase handsets on an installment basis. Generally, handset subsidies may be provided to any subscriber that uses our service and purchases handsets either directly from us or through third parties. Since we do not recognize revenues from sales of handsets by third parties, the trends between our handset sales and our provision for handset subsidies are not necessarily correlated. The amount recognized as a provision for handset subsidies is our best estimate of the expenditure required to settle current obligations to relevant subscribers at the end of the reporting period, which is calculated as the sum of the present values of the monthly balances for handset subsidies over the relevant service periods, taking into account the customer retention rate for relevant subscribers. In May 2010, the KCC announced a guideline recommending that telecommunication service providers limit their marketing expenses to 22.0% of their annual sales, and the limit was subsequently lowered to 20.0% of their annual sales for the years 2013, 2012 and 2011. Such marketing expenses include initial commissions, monthly commissions and retention commissions paid to our authorized dealers and subscribers, including handset subsidies, but do not include advertising expenses. This guideline remains effective. While the guideline is not binding, we, as well as our competitors, nonetheless try to adhere to such guideline when feasible, which may have a material adverse effect on our businesses and results of operations. Furthermore, failure to comply with rules, regulations and corrective orders may lead to suspension of our business or imposition of monetary penalties.

For example, based on investigations conducted in December 2012 and January 2013, the KCC imposed a combined fine of approximately ₩12 billion on SK Telecom, LG U+ and us in January 2013 (our fine being approximately ₩2.9 billion), for providing subsidies that were higher than those allowed under current regulations to new mobile phone purchasers and subscribers, and also imposed temporary suspensions from recruiting new subscribers ranging from 20 days to 24 days. In March 2013, the KCC again imposed a combined fine of approximately ₩5 billion on SK Telecom, LG U+ and us (our fine being approximately ₩1.6 billion) for continuing to offer subsidies during the suspension period. In July 2013, the KCC imposed a combined fine of approximately ₩67 billion on SK Telecom, LG U+ and us (our fine being approximately ₩20

billion) and also imposed a seven day suspension on us from recruiting new subscribers, also in connection with providing excessive handset subsidies to new subscribers. In December 2013, the KCC again imposed a combined fine of approximately ₩106 billion on SK Telecom, LG U+ and us (our fine being approximately ₩30 billion), which is the largest fine ever imposed by the KCC on local mobile operators for providing excessive subsidies to new subscribers. In March 2014, the MSIP imposed a 45-day suspension on each of us, SK Telecom and LG U+ from recruiting new subscribers as a result of continuing to offer excessive handset subsidies to new subscribers, despite the order from the KCC prohibiting such subsidies. In August 2014, the KCC again imposed a combined fine of approximately ₩58 billion on SK Telecom, LG U+ and us (our fine being approximately ₩11 billion) for providing excessive handset subsidies, and also imposed temporary suspensions on recruiting new subscribers for seven days on SK Telecom and LG U+. In December 2014, the KCC further imposed a fine of approximately ₩8 billion on each of SK Telecom, LG U+ and us for providing excessive handset subsidies and in March 2015 the KCC again imposed a combined fine of approximately ₩34 billion on SK Telecom, LG U+ and us (our fine being approximately ₩9 billion) for violation of regulations relating to handset sales, in connection with a used handset buyback program that we and the other telecommunications operators were promoting. Any further suspension of our business or imposition of monetary penalties by the Government could have a material adverse effect on our business.

Furthermore, on October 1, 2014, the Mobile Device Act, which seeks to lower the cost of communication and reduce handset factory prices by establishing fair and transparent order in the distribution of mobile telecommunication devices, went into effect. The Mobile Device Act regulates, inter alia, the sale and subsidies of mobile devices such as smartphones, with one of its purposes being to induce telecommunication operators to compete in lowering the costs of communications and encourage the manufacturers to reduce handset factory prices, while improving service quality. Under the Mobile Device Act, consumers may not be discriminated in terms of subsidies based on their age, place of residence or monthly subscription plan when using their existing mobile phones, buying a new phone or switching their mobile carriers. Furthermore, everyone, regardless of their status, is entitled to receive either a handset subsidy for the purchase of mobile phone models that were launched within the last 15 months, or a tariff discount (with the current discount rate set at 20%, effective as of April 24, 2015). The maximum amount of handset subsidy that telecommunications operators and handset manufacturers may offer is determined by Korean telecommunication regulators (such limit to be determined between ₩250,000 and ₩350,000, and may be adjusted every six months, with the current limit set at ₩330,000, effective as of April 8, 2015). Telecommunications operators are also required to publicly announce the amount of handset subsidy that they offer, which may not be readjusted within one week after such announcement. In addition, telecommunications operators are prohibited from using misleading or exaggerated advertisements, such as advertisements that mobile phones are free without adequately explaining that it is preconditioned on signing up for high-priced monthly subscription plans.

Researching and Implementing Technology Upgrades and Additional Telecommunication Services

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, we are continually upgrading our broadband network to enable better FTTH connection, which provides speed of up to 1 Gbps and better 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 IPTV, and other digital media content with stronger stability.

In addition, we have been building more advanced mobile telecommunications networks based on LTE technology, which is generally referred to as 4G technology, and commenced providing commercial 4G LTE services in the Seoul metropolitan area in January 2012. We completed the expansion of our 4G LTE service coverage nationwide in October 2012. We commenced providing wideband LTE services in September 2013, which we expanded nationwide in July 2014, and commercialized Wideband LTE-A services in March 2014, and began additionally interconnecting 10 MHz of bandwidth in the 2.1 GHz spectrum in January 2015 to support transmission speed of up to 300 Mbps under the "Wideband LTE-A X4" service, as discussed above.

Critical Accounting Policies

We have prepared our consolidated financial statements in accordance with IFRS as issued by the IASB. These accounting principles require our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date

of the financial statements and revenues and expenses during the years reported. We based our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates under different assumptions and conditions.

The fundamental objective of financial reporting is to provide useful information that allows a reader to comprehend our business activities. To aid in that understanding, our management has identified “critical accounting estimates.” These estimates have the potential to have a more significant impact on our financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

These critical accounting estimates include:

- allowances for doubtful accounts;
- useful lives of property, equipment, intangible assets and investment property;
- impairment of long-lived assets, including goodwill;
- valuation and impairment of investment securities;
- income taxes;
- deferred revenue relating to service installation fees and initial subscription fees;
- post-employment benefit liabilities; and
- provisions.

Allowances for Doubtful Accounts

Allowance for doubtful accounts is our best estimate of the amount of impairment losses incurred on our existing notes and accounts receivable. We determine the allowance for doubtful notes and accounts receivable based on an aging analysis of balances, historical write-off experience, customer's or counterparty's credit ratings and changes in payment terms. Account balances are charged off against the allowance when all means of collection have been exhausted and the potential for recovery is considered remote. Our past experience shows that the possibility of collection is remote after three years of collection effort.

Changes in the allowances for doubtful accounts for our trade and other receivables in the three-year period ended December 31, 2014 are summarized as follows:

	Year Ended December 31,		
	2012	2013	2014
		(In millions of Won)	
Balance at beginning of year	₩ 642,475	₩ 644,058	₩ 678,262
Provision	113,808	160,166	199,135
Reversal or written-off	(127,189)	(127,206)	(141,194)
Changes in the scope of consolidation	12,119	2,687	3,425
Others	2,845	(1,443)	(1,365)
Balance at end of year	₩ 644,058	₩ 678,262	₩ 738,263

Changes in the allowances for doubtful accounts for our loans receivables in the three-year period ended December 31, 2014 are summarized as follows:

	Year Ended December 31,		
	2012	2013	2014
		(In millions of Won)	
Balance at beginning of year	₩ 43,587	₩ 65,196	₩ 73,075
Provision	32,914	40,743	31,656
Reversal or written-off	(12,210)	(30,448)	(23,618)
Others	905	(2,416)	(2,010)
Balance at end of year	₩ 65,196	₩ 73,075	₩ 79,103

If economic or specific industry trends change, we would adjust our allowances for doubtful accounts by recording additional expense or benefit.

Useful Lives of Property, Equipment, Intangible Assets and Investment Property

Property and equipment, intangible assets and investment properties (excluding land, condominium memberships, golf club memberships and broadcasting concession) are depreciated using the straight-line method over their useful lives as disclosed in Note 3.8 to the Consolidated Financial Statements. An asset's residual value and useful lives are reviewed and adjusted at the end of each financial reporting period, and are based on historical experience with similar assets as well as taking into account anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation expense in future periods. A decrease of remaining estimated useful life by one year of our property and equipment would result in an increase of depreciation expense of approximately ₩294 billion in 2014.

Impairment of Long-Lived Assets, including Goodwill

Long-lived assets generally consist of property and equipment and intangible assets, including goodwill. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, we evaluate our long-lived assets for impairment each year as part of our annual forecasting process. An impairment loss would be recognized when the asset's recoverable amount is less than its carrying amount. The recoverable amount of a long-lived asset is the greater of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amounts of cash-generating units are based on their value in use calculated by applying the annual discount rate ranging from 5.59% to 11.42% (depending on the segment) to the estimated future cash flows based on financial budgets for the next five years. Annual growth rates ranging from 0.0% to 1.5% were applied for the cash flows expected to be incurred after five years. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated recovery value.

Goodwill represents the excess of purchase price paid over the fair value assigned to the identifiable net assets of acquired businesses. The determination of the fair values of goodwill is based on management's judgment on the expected cash flows of the cash-generating units to which the goodwill is allocated, taking market demand, competition and other economic factors into consideration. The determination of impairments of goodwill involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunications industry, a decline in our expected future cash flows, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs and prices paid in comparable transactions.

Valuation and Impairment of Financial Assets

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

We record rights and obligations arising from derivative instruments as assets and liabilities, which are stated at fair value. Gains and losses that result from a change in the fair value of derivative instruments are recognized in current earnings. However, for derivative instruments that qualify for cash flow hedge accounting, the effective portion of the gain or loss on the derivative instruments are recorded as gain or loss on valuation of derivatives for cash flow hedge included in accumulated other comprehensive income or loss, as applicable.

For financial assets, including assets carried at amortized cost and those classified as available-for-sale, we make an annual assessment at the end of each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For financial assets carried at amortized cost and available-for-sale debt assets, such asset is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events (a "loss event") that occurred after the initial recognition of the financial asset, which had an impact on the estimated future cash flows of the

financial asset that can reliably be estimated. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost, in addition to circumstances described below, may be considered as evidence that the asset is impaired.

For assets carried at amortized cost, the amount of impairment 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 asset's original effective interest rate, and the carrying amount of the asset is reduced and the amount of loss is recognized in the statement of income. Loss on such asset may also be measured based on observable market price if there is an active market for the asset. For assets classified as available-for-sale, the cumulative loss, measured as the difference between the acquisition cost and the current fair value and recognized as accumulated other comprehensive income, less any impairment loss on such financial asset previously recognized in profit or loss, is removed from equity and recognized in the statement of income.

Significant management judgment is involved in evaluating whether a loss event has occurred. The estimates and assumptions used by management to evaluate whether a loss event has occurred can be impacted by many factors, such as the financial condition, earnings capacity and near-term prospects of the company in which we have invested, breach of contract such as default or delinquency in payments, disappearance of an active market for the financial asset and other adverse changes in the payment status of borrowers in the portfolio. The evaluation of these investments is also subject to the overall condition of the economy and its impact on the capital markets.

Income Taxes

We are required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in our financial statements or tax returns. This process requires management to make assessments regarding the timing and probability of the tax impact. Actual income taxes could vary from these estimates due to future changes in income tax law or unpredicted results from the final determination of each year's liability by taxing authorities.

We believe that the accounting estimate related to assessing the realizability of deferred tax assets is a "critical accounting estimate" because: (1) it requires management to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities, and (2) the impact that changes in actual performance versus these estimates could have on the realization of tax benefits as reported in our results of operations could be material. Management's assumptions require significant judgment because actual performance has fluctuated in the past and may continue to do so.

Deferred Revenue relating to Service Installation Fees and Initial Subscription Fees

We charge service installation fees and initial subscription fees related to activation of many of our services, which are deferred and recognized as revenue over the expected terms of customer relationships. Our estimate of expected terms of customer relationship is based on the historical rate, which may differ in the future. If the management's estimation is amended, it may cause significant differences in the timing of revenue recognition and amount recognized.

Post-employment Benefit Liabilities

Our accounting of post-employment benefits, which mainly consist of a defined benefit plan (we began offering a defined contribution plan in December 2012), involves judgments about uncertain events including discount rates, life expectancy and future pay inflation. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The discount rates used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability, are determined at the end of each reporting period by reference to the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of our benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid. Other key assumptions for defined benefit liability are based in part on current market conditions. For defined contribution plans, we pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis, and we have no further payment obligations once the contributions have been paid.

Provisions

We recognize provisions at the end of the reporting period when we have a present legal or constructive obligation, such as litigation or assets requirement obligations, as a result of past events and an outflow of resources required to settle the obligation is probable and can be reliably estimated. We measure provisions at the present value of the expenditures expected to be required to settle the obligation, which are estimated based on factors such as historical experience. We do not recognize provisions for future operating losses and recognize as interest expense any increase in the provisions due to passage of time. See Notes 2.22, 3.7 and 17 to the Consolidated Financial Statements.

Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS

In addition to preparing financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with K-IFRS, which we are required to file with the Financial Services Commission and the Korea Exchange under the Financial Investment Services and Capital Markets Act of Korea.

During the three years ended December 31, 2014, we are required to adopt certain amendments and interpretations to K-IFRS, relating to presentation of operating profit. Additionally, under K-IFRS, revenue from the development and sale of real estate is recognized using the percentage of completion method. However, under IFRS as issued by the IASB, revenue from the development and sale of real estate is recognized when an individual unit of residential real estate is delivered to the buyer. Furthermore, in connection with the exercise of early redemption rights for certain commercial paper guaranteed by KT ENS, our previously consolidated subsidiary, we recognized financial losses relating to the resulting estimation of guarantee liabilities in our consolidated statements of operations prepared in accordance with IFRS as issued by the IASB for the year ended December 31, 2013 (which were issued on April 28, 2014), which were not reflected in our financial statements prepared in accordance with K-IFRS for the year ended December 31, 2013 (which were issued on March 13, 2014) as it was not possible to make a reasonable estimate of the liabilities at the time of issuing the K-IFRS financial statements. We subsequently reflected such losses in our K-IFRS financial statements for the year ended December 31, 2014. As a result, the presentation of operating results in our consolidated statements of operations prepared in accordance with IFRS as issued by the IASB included in this annual report differs from the presentation of operating results in our consolidated statements of operations prepared in accordance with K-IFRS. The table below sets forth a reconciliation of our operating profit and net income or loss as presented in our consolidated statements of operations prepared in accordance with IFRS as issued by the IASB for each of the years ended December 31, 2012, 2013 and 2014 to our operating profit and net income or loss in our consolidated statements of operations prepared in accordance with K-IFRS, for each of the corresponding years, taking into account such differences:

	For the Year Ended December 31,				
	2012		2013		2014
	(In millions of Won)				
Operating profit (loss) under IFRS as issued by the IASB	₩	1,680,099	₩	323,384	₩ (662,403)
Effect of changes in operating income presentation		(470,866)		493,589	389,517
Revenue recognition of development and sale of real estate		—		22,370	(18,767)
Operating profit (loss) under K-IFRS	₩	1,209,233	₩	839,343	₩ (291,653)

		For the Year Ended December 31,							
		2012		2013		2014			
		(In millions of Won)							
Net income(loss) under IFRS as issued by the IASB.....	₩	1,136,973		₩	(87,745)		₩	(941,413)	
Profit before income tax									
Revenue recognition of development and sale of real estate.....		—			22,370			(18,767)	
Guarantee liabilities and loss (KT ENS)		—			10,538			(10,538)	
Income tax.....		—			(5,414)			4,542	
Net income(loss) under K-IFRS	₩	1,136,973		₩	(60,251)		₩	(966,176)	

Recent Accounting Pronouncements under IFRS

For a summary of new standards, amendments and interpretations issued under IFRS as issued by the IASB but not effective for 2014, and which have not been adopted early by us, see Note 2.2 to the Consolidated Financial Statements.

Operating Revenues and Operating Expenses

Operating Revenues

Our operating revenues primarily consist of:

- fees related to our mobile services, including initial subscription fees, monthly fees, usage charges for outgoing calls, usage charges for wireless data transmission, contents download fees, mobile-to-mobile interconnection revenues and value-added monthly service fees;
- fees from our fixed-line services, including:
 - fees from our fixed-line telephone services, which include:
 - monthly basic charges, which are one-time or monthly fixed charges primarily consisting of (i) non-refundable installation fees; and (ii) basic monthly charges from local telephone services (or fixed monthly charges for discount plans);
 - monthly usage charges, which are usage fees based on the amount of services used, primarily consisting of (i) monthly usage charges for local telephone and domestic long distance services; (ii) international long-distance service revenues, (primarily (a) amounts we bill to our customers for outgoing calls made to foreign countries, (b) amounts we bill to foreign telecommunications carriers for connection to the domestic telephone network in respect of incoming calls at the applicable settlement rate, and (c) other revenues, including revenues from international leased lines); (iii) land-to-mobile and land-to-land interconnection revenues; (iv) interconnection fees we charge to fixed-line and mobile service providers and voice resellers for their use of our local, domestic long-distance and international networks in providing their services; and
 - other revenues from (i) value-added services, including “1588” intelligent network call services, local telephone directory assistance, call waiting and caller identification services; and (ii) local, domestic long-distance and international calls placed from public telephones.
 - Internet service revenues which consist of:
 - broadband Internet access service revenues, primarily consisting of installation fees and basic monthly charges; and
 - other Internet-related service revenues related to our infrastructure and solution services for business enterprises, IPTV and network portal services;
 - data communications service revenues, primarily consisting of installation fees and basic monthly charges for our leased line services and Kernet Internet connection service and revenues from our satellite services;
- revenues from goods sold that are generated primarily through sale of mobile handsets and specially designed phones for fixed-line and mobile convergence services;
- financial service revenues, primarily consisting of fees from credit card services provided by BC Card Co., Ltd., which became our consolidated subsidiary starting in October 2011; and
- miscellaneous revenues that are primarily derived from information technology and network services, satellite services, security services and real estate development.

We also generated revenues from automobile rental services, primarily consisting of fees generated from automobile rentals and leases by KT Rental Co., Ltd., which became our consolidated subsidiary starting in

July 2012. An agreement to sell KT Rental to the Lotte Group for approximately ₩1.02 trillion (with estimated proceeds to KT Corporation being approximately ₩772 billion) was entered into in March 2015, and the sale is expected to be completed in May 2015.

Operating Expenses

Our operating expenses primarily include:

- purchase of inventories, primarily consisting of our sale of mobile handsets and specially designed phones for fixed-line mobile convergence services;
- salaries and wages, including post-employment benefits, termination benefits and share-based payments;
- depreciation expenses incurred primarily in connection with our telecommunications network facilities;
- sales commissions, primarily consisting of commissions to independent dealers related to procurement of mobile subscribers and mobile handset sales;
- commissions, primarily consisting of commission-based payments for third-party outsourcing services, including commissions to the call center staff;
- card service costs, primarily consisting of costs in connection with credit card services provided by BC Card Co., Ltd., including fees paid to member credit card companies in our network for marketing expenses and for costs associated with the present value and default risks of installment card charges which are borne by such member companies;
- service cost, primarily consisting of payments for third-party outsourcing services, including payments for software development and design, data analysis and processing, and installment and maintenance of IT and satellite equipment; and
- interconnection charges, which are interconnection payments to telecommunication service providers for calls from landline users and our mobile subscribers to our competitors' subscribers.

Operating Results –2013 Compared to 2014

The following table presents selected income statement data and changes therein for 2013 and 2014:

	For the Year Ended December 31,		Changes	
			2013 vs. 2014	
	2013	2014	Amount	%
	(In billions of Won)			
Operating revenues	₩ 24,058	₩ 23,727	₩ (331)	(1.4)%
Revenue	23,729	23,469	(260)	(1.1)
Others	329	258	(71)	(21.6)
Operating expenses	23,734	24,390	656	2.8
Operating profit (loss)	323	(662)	(985)	N.A.
Finance income	279	255	(24)	(8.6)
Finance costs	(648)	(818)	(170)	26.2
Income from jointly controlled entities and associates	7	18	11	157.1
Loss from continuing operations before income tax	(38)	(1,208)	(1,170)	3,078.9
Income tax expense (benefit)	50	(266)	(316)	N.A.
Loss for the period from continuing operations	(88)	(941)	(853)	969.3
Loss for the period	₩ (88)	₩ (941)	(853)	969.3%

N.A. means not available.

Operating Revenues

The following table presents a breakdown of our operating revenues and changes therein for 2013 and 2014:

	For the Year Ended December 31,		Changes	
	2013	2014	2013 vs. 2014	
	(In billions of Won)		Amount	%
Mobile services	₩ 6,711	₩ 7,103	₩ 392	5.8%
Fixed-line services	7,179	6,853	(326)	(4.5)
Fixed-line telephone services:				
Monthly Basic Charges	749	695	(54)	(7.2)
Monthly Usage Charges.....	1,462	1,238	(224)	(15.3)
Others	773	678	(95)	(12.3)
Sub-total	2,984	2,611	(373)	(12.5)
Internet services:				
Broadband internet access service.....	2,011	1,934	(77)	(3.8)
Other Internet-related services	985	1,160	175	17.8
Sub-total	2,996	3,094	98	3.3
Data communication services	1,199	1,148	(51)	(4.3)
Sale of goods.....	4,066	3,478	(588)	(14.5)
Financial services	3,274	4,074	800	24.4
Automobile rental service.....	606	769	163	26.9
Other	2,222	1,450	(772)	(34.7)
Total operating revenues	₩ 24,058	₩ 23,727	₩ (331)	(1.4)%

N.A. means not available.

Total operating revenues decreased by 1.4%, or ₩331 billion, from ₩24,058 billion in 2013 to ₩23,727 billion in 2014 primarily due to decreases in our other service revenues, sale of goods and fixed-line telephone service revenues, the impact of which was partially offset by increases in our financial service revenues and mobile service revenues.

Mobile Services

Our mobile service revenues increased by 5.8%, or ₩392 billion, from ₩6,711 billion in 2013 to ₩7,103 billion in 2014 primarily due to a 5.3% increase in our mobile subscribers from approximately 16,454,000 as of December 31, 2013 to approximately 17,328,000 as of December 31, 2014. Such increase in our mobile subscribers was further enhanced by an increase in our average revenue per user, resulting from the launching of our wideband LTE services in September 2013 and Wideband LTE-A services in March 2014, as wideband LTE and Wideband LTE-A service products generally have higher rates due to the greater amount of data included in such rates.

Fixed-line Services

Our fixed-line service revenues decreased by 4.5%, or ₩326 billion, from ₩7,179 billion in 2013 to ₩6,853 billion in 2014 primarily due to decreases in fixed-line telephone service revenues and data communication service revenues, the impact of which was partially offset by an increase in our internet service revenues.

Fixed-line Telephone Services. Our fixed-line telephone service revenues decreased by 12.5%, or ₩373 billion, from ₩2,984 billion in 2013 to ₩2,611 billion in 2014 primarily due to decreases in monthly usage charges, monthly basic charges and other fixed-line telephone service revenues. Specifically:

- Monthly basic charges decreased by 7.2%, or ₩54 billion, from ₩749 billion in 2013 to ₩695 billion in 2014 primarily due to a 2.1% decrease in the number of our telephone lines in service from 14.0 million in 2013 to 13.7 million in 2014 and an increase in the number of our fixed-line subscribers who participate in our bundled products that offer discounts when subscribing to our other services.

- Monthly usage charges decreased by 15.3%, or ₩224 billion, from ₩1,462 billion in 2013 to ₩1,238 billion in 2014 primarily due to the continuing substitution effect from increase in usage of mobile telephone services, Internet phone services and other VoIP services such as KakaoTalk, Line and Skype, which led to a 27.1% decrease in domestic long-distance call minutes from 4.8 million in 2013 to 3.5 million in 2014 and an 18.4% decrease in local call pulses from 4.9 million in 2013 to 4.0 million in 2014.
- Other fixed-line telephone service revenue decreased by 12.3%, or ₩95 billion, from ₩773 billion in 2013 to ₩678 billion in 2014 primarily due to the continuing substitution effect from increase in usage of mobile telephone services, Internet phone services and other VoIP services, as well as a decrease in the number of lines in service from 2013 to 2014.

Internet Services. Our Internet service revenues increased by 3.3%, or ₩98 billion, from ₩2,996 billion in 2013 to ₩3,094 billion in 2014 primarily due to an increase in the number of IPTV subscribers from 5.0 million as of December 31, 2013 to 5.9 million as of December 31, 2014, the impact of which was offset in part by an increase in our broadband and IPTV subscribers who participate in bundled products that offer discounts when subscribing to our other services, and an increase in discounts offered to our broadband internet subscribers during 2014.

Data Communication Services. Our data communications service revenues decreased by 4.3%, or ₩51 billion, from ₩1,199 billion in 2013 to ₩1,148 billion in 2014 primarily due to a decrease in revenues from our leased lines, resulting from increased competition in the telecommunications market in Korea.

Sale of Goods

Revenues from sale of goods decreased by 14.5%, or ₩588 billion, from ₩4,066 billion in 2013 to ₩3,478 billion in 2014 primarily due a change in the accounting treatment of handset subsidies. In connection with the Mobile Device Act, revenues from mobile handset sales are recognized net of any legal handset subsidies, whereas previously, the entire amount of the sale (without deducting the subsidy amount) was recognized, and any handset subsidies were classified as operating expenses as commissions paid to third-party vendors. Such change was further enhanced by a decrease in the total number of smartphones sold, resulting from increased competition in the mobile handset market, as well as business suspensions imposed on us by the KCC during 2014 in connection with excessive handset subsidies.

Financial Services

Financial service revenues increased by 24.4%, or ₩800 billion, from ₩3,274 billion in 2013 to ₩4,074 billion in 2014 primarily due to an increase in commission revenues from our financial subsidiaries, in particular BC Card Co., Ltd., resulting in part from an increase in the number of tourists in Korea using overseas credit cards through the credit card network owned and operated by BC Card Co., Ltd., for which it receives commission fees.

Automobile Rental

Automobile rental revenues increased by 26.9%, or ₩163 billion, from ₩606 billion in 2013 to ₩769 billion in 2014 primarily due to an increase in the number of automobiles operated by KT Rental in 2014 compared to 2013.

Others

Other operating revenues decreased by 34.7%, or ₩772 billion, from ₩2,222 billion in 2013 to ₩1,450 billion in 2014 primarily due to decreases in revenues from sale of real estate, as well as from our information technology solution services and subsidiaries such as KTDS Co., Ltd. (which provides system integration and maintenance services).

Operating Expenses

The following table presents a breakdown of our operating expenses and changes therein for 2013 and 2014:

Changes

	For the Year Ended December 31,		2013 vs. 2014	
	2013	2014	Amount	%
	(In billions of Won)			
Salaries and wages.....	₩ 3,289	₩ 4,000	₩ 711	21.6%
Depreciation	3,108	3,187	79	2.5
Commissions	1,260	1,392	132	10.5
Interconnection charges.....	885	797	(88)	(9.9)
Purchase of inventories	3,566	3,403	(163)	(4.6)
Changes of inventories	321	221	(100)	(31.2)
Sales commission.....	2,315	2,631	316	13.7
Service cost	1,834	1,545	(289)	(15.8)
Card service costs	2,703	2,883	180	6.7
Others ⁽¹⁾	4,453	4,331	(122)	(2.6)
Total operating expenses.....	₩ 23,734	₩ 24,390	₩ 656	2.8%

- (1) Including other operating expenses (which include miscellaneous expenses, loss on disposal of property and equipment, impairment loss on property and equipment, loss on disposal of intangible assets, loss on disposal of investments in associates and joint ventures, impairment loss on investments in associates and joint ventures and donations), amortization of intangible assets, rent, insurance premium, utilities, international interconnection fee, installation fee, taxes and dues, research and development expenses, provision and advertising expenses.

Total operating expenses increased by 2.8%, or ₩656 billion, from ₩23,734 billion in 2013 to ₩24,390 billion in 2014 primarily due to increases in salaries and wages and sales commission, the impact of which was partially offset by decreases in service cost and purchase of inventories. Specifically:

- Salaries and wages increased by 21.6%, or ₩711 billion, from ₩3,289 billion in 2013 to ₩4,000 billion in 2014 primarily due to an increase in severance payments relating to the special retirement program described in “—Overview” above. The special voluntary early retirement program resulted in the early retirement of 8,304 additional employees.
- Sales commissions, which primarily relate to commissions paid to our third-party vendors for sales of mobile handsets and mobile and fixed-line service products, increased by 13.7%, or ₩316 billion, from ₩2,315 billion in 2013 to ₩2,631 billion in 2014, primarily due to increases in sales of our LTE mobile service products by such third-party vendors, as a result of an increase in our total mobile subscribers during 2014, as well as an increase in fixed-line sales commission and installation outsourcing service fees due to our special voluntary early retirement program. Such increases were offset in part by a decrease in commissions paid relating to official handset subsidies as discussed above.

These factors were partially offset by the following:

- Service cost decreased by 15.8%, or ₩289 billion, from ₩1,834 billion in 2013 to ₩1,545 billion in 2014 as a result of the corresponding decreases in revenues from sale of real estate, as well as from our information technology solution services as discussed above.
- Our operating expenses related to purchase of inventories decreased by 4.6%, or ₩163 billion, from ₩3,566 billion in 2013 to ₩3,403 billion in 2014 primarily due to a decrease in the total number of smartphones sold, resulting from increased competition in the mobile handset market, as well as business suspensions imposed on us by the KCC during 2014 in connection with excessive handset subsidies as discussed above.

Operating Profit

Due to the factors described above, we recorded an operating profit of ₩323 billion in 2013, compared to an operating loss of ₩662 billion in 2014. Our operating margin, which is operating profit as a percentage of operating revenues, was 1.3% in 2013 and our operating loss margin, which is operating loss as a percentage of operating revenues, was 2.8% in 2014.

Finance Income (Costs)

The following table presents a breakdown of our finance income and costs and changes therein for 2013 and 2014:

	For the Year Ended December 31,		Changes	
			2013 vs. 2014	
	2013	2014	Amount	%
	(In billions of Won)			
Interest income	₩ 109	₩ 81	₩ (28)	(25.7)%
Interest expense	(450)	(501)	(51)	11.3
Net foreign currency transaction gain (loss)	6	11	5	83.3
Net foreign currency translation gain (loss)	100	(91)	(191)	N.A.
Net loss on settlement of derivatives	(3)	(33)	(30)	1,000.0
Net gain (loss) on valuation of derivatives	(105)	68	173	N.A.
Net other finance costs ⁽¹⁾	(25)	(99)	(74)	296.0
Net finance costs	₩ (368)	₩ (564)	₩ (196)	53.3%

N.A. means not available.

(1) Including net other finance income and expenses, loss on disposal of trade receivables and impairment loss on available-for-sale financial assets.

Our net finance costs increased by 53.3%, or ₩196 billion, from ₩368 billion in 2013 to ₩564 billion in 2014 primarily due to our recognition of net foreign currency translation gain in 2013 compared to a net loss in 2014 and an increase in net other finance costs, the impact of which was partially offset by the net gain on valuation of derivatives in 2014 compared to a net loss in 2013. Specifically:

- We recorded net foreign currency translation gain of ₩100 billion in 2013 compared to net foreign currency translation loss of ₩91 billion in 2014, as the Market Average Exchange Rate of the Won against the U.S. dollar appreciated from ₩1,071.1 to US\$1.00 as of December 31, 2012 to ₩1,055.3 to US\$1.00 as of December 31, 2013, but depreciated to ₩1,099.2 to US\$1.00 as of December 31, 2014. The impact of such net foreign currency translation loss in 2014 was partially offset by the net gain on valuation of derivatives discussed below.
- Our net other finance costs increased by 296.0%, or ₩74 billion, from ₩25 billion in 2013 to ₩99 billion in 2014 primarily due to a ₩65 billion increase in impairment loss on available-for-sale financial assets from ₩5 billion in 2013 to ₩70 billion in 2014, mainly resulting from an impairment loss of ₩49 billion recognized on our interests in KT ENS, which was classified as available-for-sale financial securities for 2014 due to KT ENS filing for court receivership in 2014, whereas it was a consolidated subsidiary for 2013.

These factors were partially offset by the following:

- We recorded net loss on valuation of derivatives of ₩105 billion in 2013, compared to net gain on valuation of derivatives of ₩68 billion in 2014, primarily due to an increase in gains from our currency swap contracts due to the depreciation of the exchange rates of the Won against the Japanese Yen and the U.S. dollar from December 31, 2013 to December 31, 2014.

Income (Loss) from Jointly Controlled Entities and Associates

Income from jointly controlled entities and associates increased by 157.1%, or ₩11 billion, from ₩7 billion in 2013 to ₩18 billion in 2014, primarily due to an increase in net income of KT-SB Venture Investment, and the corresponding increase in our share of such net income.

Income Tax Expense

We recognized an income tax expense of ₩50 billion in 2013, compared to an income tax benefit of ₩266 billion in 2014, primarily due to a significant increase in our loss from continuing operations before income tax from ₩38 billion in 2013 to ₩1,208 billion in 2014. We incurred a tax expense despite incurring a loss before income tax in 2013, as we, in preparing our consolidated financial statements, aggregate the tax results of ourselves and our subsidiaries, some of which had taxable income. See Note 29 to the Consolidated Financial Statements. We had net deferred income tax assets of ₩537 billion as of December 31, 2013 and ₩935 billion as of December 31, 2014.

Loss for the Period

Due to the factors described above, our loss for the period increased by 969.3%, or ₩853 billion, from ₩88 billion in 2013 to ₩941 billion in 2014. Our net loss margin, which is loss for the period as a percentage of operating revenues, was 0.4% in 2013 and 4.0% in 2014.

Segment Results –Customer/Marketing Group

Our operating revenues for this segment, prior to adjusting for inter-segment transactions, decreased by 2.5%, or ₩371 billion, from ₩14,938 billion in 2013 to ₩14,567 billion in 2014 primarily due to a decrease in revenues from individual fixed-line telephone subscribers.

We recorded operating income for this segment of ₩52 billion in 2013, compared to operating loss for this segment of ₩798 billion in 2014, prior to adjusting for inter-segment transactions, as the 3.2% increase in the segment's operating expenses outpaced the 2.5% decrease in the segment's operating revenues primarily due to the reasons discussed above. Operating margin, which is operating income as a percentage of total operating revenues prior to adjusting for inter-company sales, was 0.3% in 2013, and operating loss margin, which is operating loss as a percentage of total operating revenues prior to adjusting for inter-company sales, was 5.5% in 2014.

Depreciation and amortization, prior to adjusting for inter-segment transactions, increased by 3.6%, or ₩89 billion, from ₩2,445 billion in 2013 to ₩2,534 billion in 2014.

Segment Results – Enterprise Sales Group

Our operating revenues for this segment, prior to adjusting for inter-segment transactions, remained constant at ₩2,917 billion in 2013 and in 2014.

Our operating income for this segment, prior to adjusting for inter-segment transactions, decreased by 58.9%, or ₩139 billion, from ₩236 billion in 2013 to ₩97 billion in 2014, as the segment's operating expenses increased by 5.2%, while the segment's operating revenues remained constant primarily due to the increase in salary expenses associated with the special voluntary retirement program as discussed above. Operating margin decreased from 8.1% in 2013 to 3.3% in 2014.

Depreciation and amortization, prior to adjusting for inter-segment transactions, increased by 0.6%, or ₩3 billion, from ₩486 billion in 2013 to ₩489 billion in 2014.

Segment Results – Finance/Rental Business Group

Our operating revenues for this segment, prior to adjusting for inter-segment transactions, increased by 12.3%, or ₩498 billion, from ₩4,053 billion in 2013 to ₩4,551 billion in 2014 primarily due to an increase in commission revenues from our financial subsidiaries, in particular BC Card Co., Ltd., in part resulting from an increase in the number of tourists in Korea using overseas credit cards through the credit card network owned and operated by BC Card Co., Ltd., for which it receives commission fees.

Our operating income for this segment, prior to adjusting for inter-segment transactions, increased by 15.0%, or ₩42 billion, from ₩280 billion in 2013 to ₩322 billion in 2014, as the 12.3% increase in the segment's operating revenues outpaced a 12.1% increase in operating expenses primarily due to the reasons discussed above. Operating margin increased from 6.9% in 2013 to 7.1% in 2014.

Depreciation and amortization, prior to adjusting for inter-segment transactions, increased by 16.3%, or ₩65 billion, from ₩400 billion in 2013 to ₩465 billion in 2014 primarily due to the additional purchases of automobiles by KT Rental Co., Ltd. during 2014 as discussed above, which increased the depreciable asset base.

Segment Results – Others

Our operating revenues for this segment, prior to adjusting for inter-segment transactions, decreased by 5.4%, or ₩275 billion, from ₩5,094 billion in 2013 to ₩4,819 billion in 2014 primarily due to the classification of our interest in KT ENS as available-for-sale securities starting 2014, as well as disposal of certain subsidiaries in 2014, whose revenues were recognized under this segment.

We recorded an operating income for this segment of ₩287 billion in 2013, compared to an operating loss for this segment of ₩214 billion in 2014, as the 5.4% decrease in the segment's operating revenues

outpaced a 4.7% increase in operating expenses primarily due to the reasons discussed above. Operating margin was 5.6% in 2013 and operating loss margin was 4.4% in 2014.

Depreciation and amortization, prior to adjusting for inter-segment transactions, increased by 17.2%, or ₩40 billion, from ₩233 billion in 2013 to ₩273 billion in 2014.

Operating Results –2012 Compared to 2013

The following table presents selected income statement data and changes therein for 2012 and 2013:

	For the Year Ended December 31,		Changes	
	2012	2013	2012 vs. 2013	
			Amount	%
	(In billions of Won)			
Operating revenues	₩ 24,644	₩ 24,058	₩ (586)	(2.4)%
Revenue	23,856	23,729	(127)	(0.5)
Others	787	329	(458)	(58.2)
Operating expenses	22,964	23,734	770	3.4
Operating profit	1,680	323	(1,357)	(80.8)
Finance income	499	279	(220)	(44.1)
Finance costs	(782)	(648)	134	(17.1)
Income from jointly controlled entities and associates	18	7	(11)	(61.1)
Profit (loss) from continuing operations before income tax	1,415	(38)	(1,453)	N.A.
Income tax expense	278	50	(228)	(82.0)
Profit (loss) for the period from continuing operations	1,137	(88)	(1,225)	N.A.
Loss from discontinued operations	(32)	—	32	N.A.
Profit (loss) for the period	₩ 1,105	₩ (88)	(1,193)	N.A.

N.A. means not available.

Operating Revenues

The following table presents a breakdown of our operating revenues and changes therein for 2012 and 2013:

	For the Year Ended December 31,		Changes	
	2012	2013	2012 vs. 2013 Amount	%
	(In billions of Won)			
Mobile services	₩ 6,578	₩ 6,711	₩ 133	2.0%
Fixed-line services	7,593	7,179	(414)	(5.5)
Fixed-line telephone services:				
Monthly basic charges	807	749	(58)	(7.2)
Monthly usage charges	1,740	1,462	(278)	(16.0)
Others	827	773	(54)	(6.5)
Sub-total	3,374	2,984	(390)	(11.6)
Internet services:				
Broadband internet access service	2,036	2,011	(25)	(1.2)
Other Internet-related services	874	985	111	12.7
Sub-total	2,910	2,996	86	3.0
Data communication services	1,309	1,199	(110)	(8.4)
Sale of goods	4,590	4,066	(524)	(11.4)
Financial services	3,320	3,274	(46)	(1.4)
Automobile rental service	253	606	353	139.5
Other	2,310	2,222	(88)	(3.8)
Total operating revenues	₩ 24,644	₩ 24,058	₩ (586)	(2.4)%

N.A. means not available.

Total operating revenues decreased by 2.4%, or ₩586 billion, from ₩24,644 billion in 2012 to ₩24,058 billion in 2013 primarily due to decreases in our sale of goods, fixed-line telephone service revenues and data communication services revenues, the impact of which was partially offset by increases in our automobile rental service revenues and mobile service revenues.

Mobile Services

Our mobile service revenues increased by 2.0%, or ₩133 billion, from ₩6,578 billion in 2012 to ₩6,711 billion in 2013 primarily due to the launching of our wideband LTE services in September 2013, and the corresponding increase in our average revenue per user, as wideband LTE service products generally have higher rates due to the greater amount of data included in such rates. Such increase in average revenue per user was partially offset by a 0.3% decrease in our mobile subscribers from approximately 16,502,000 as of December 31, 2012 to approximately 16,454,000 in December 31, 2013.

Fixed-line Services

Our fixed-line service revenue decreased by 5.5%, or ₩414 billion, from ₩7,593 billion in 2012 to ₩7,179 billion in 2013 primarily due to decreases in fixed-line telephone service revenues and data communications service revenues, which were partially offset by an increase in internet service revenues.

Fixed-line Telephone Services. Our fixed-line telephone service revenues decreased by 11.6%, or ₩390 billion, from ₩3,374 billion in 2012 to ₩2,984 billion in 2013 primarily due to decreases in monthly usage charges, monthly basic charges and other fixed-line telephone service revenues. Specifically:

- Monthly basic charges decreased by 7.2%, or ₩58 billion, from ₩807 billion in 2012 to ₩749 billion in 2013 primarily due to a 9.3% decrease in the number of our telephone lines in service from 15.1 million in 2012 to 14.0 million in 2013.
- Monthly usage charges decreased by 16.0%, or ₩278 billion, from ₩1,740 billion in 2012 to ₩1,462 billion in 2013 primarily due to the continuing substitution effect from increase in usage of mobile telephone services, Internet phone services and other VoIP services such as KakaoTalk, Line

and Skype, as well as decreases in the number of lines in service and calls made from landline users to mobile subscribers in 2013 compared to 2012.

- Other fixed-line telephone service revenue decreased by 6.5%, or ₩54 billion, from ₩827 billion in 2012 to ₩773 billion in 2013 primarily due to the continuing substitution effect from increase in usage of mobile telephone services, Internet phone services and other VoIP services, as well as a decrease in the number of lines in service from 2012 to 2013.

Internet Services. Our Internet service revenues increased by 3.0%, or ₩86 billion, from ₩2,910 billion in 2012 to ₩2,996 billion in 2013 primarily due to an increase in the number of IPTV subscribers from 4.0 million as of December 31, 2012 to 5.0 million as of December 31, 2013, the impact of which was offset in part by an increase in our IPTV subscribers who participate in bundled products that offer discounts when subscribing to our other services, and an increase in the number of our broadband subscribers from 8.0 million as of December 31, 2012 to 8.1 million as of December 31, 2013.

Data Communications Services. Data communications service revenues decreased by 8.4%, or ₩110 billion, from ₩1,309 billion in 2012 to ₩1,199 billion in 2013 primarily due to a decrease in revenues from our leased lines, resulting from increased competition in the telecommunications market in Korea.

Sale of Goods

Revenues from sale of goods decreased by 11.4%, or ₩524 billion, from ₩4,590 billion in 2012 to ₩4,066 billion in 2013 primarily due to a decrease in the number of smartphones sold, resulting from increased competition in the mobile handset market, as well as business suspensions imposed on us by the KCC during 2013 in connection with excessive handset subsidies as discussed above.

Financial Services

Financial service revenues decreased by 1.4%, or ₩46 billion, from ₩3,320 billion in 2012 to ₩3,274 billion in 2013 primarily due to a decrease in commission revenues from our financial subsidiaries, in particular BC Card Co., Ltd., resulting from a decrease in the rate of commission BC Card Co., Ltd. charges for purchases, which in turn resulted from increased competition in the financial services market during 2013.

Automobile Rental

Automobile rental revenues increased by 139.5%, or ₩353 billion, from ₩253 billion in 2012 to ₩606 billion in 2013 primarily due to the recognition of full year income from KT Rental Co., Ltd. in 2013, which became our consolidated subsidiary and related revenues became a part of our consolidated revenue starting in July 2012, following the acquisition of KT Rental's common stock by Hana Daetoo Securities Co., Ltd. and other investors from the second largest shareholder in July 2012, and the restriction on our control over KT Rental pursuant to a shareholders' agreement being removed as a result.

Others

Other operating revenues decreased by 3.8%, or ₩88 billion, from ₩2,310 billion in 2012 to ₩2,222 billion in 2013 primarily due to a 19.3%, ₩57 billion, or decrease in operating revenues from KT Telecom Co., Ltd., our subsidiary specializing in security services.

Operating Expenses

The following table presents a breakdown of our operating expenses and changes therein for 2012 and 2013:

	For the Year Ended December 31,		Changes	
			2012 vs. 2013	
	2012	2013	Amount	%
	(In billions of Won)			
Salaries and wages.....	₩ 3,097	₩ 3,289	₩ 192	6.2%
Depreciation	2,894	3,108	214	7.4
Commissions	1,426	1,260	(166)	(11.6)

	For the Year Ended December 31,		Changes	
			2012 vs. 2013	
	2012	2013	Amount	%
	(In billions of Won)			
Interconnection charges.....	901	885	(16)	(1.8)
Purchase of inventories	4,851	3,566	(1,285)	(26.5)
Changes of inventories	(259)	321	580	N.A.
Sales commission.....	2,230	2,315	85	3.8
Service cost	1,264	1,834	570	45.1
Card service costs	2,771	2,703	(68)	(2.5)
Others ⁽¹⁾	3,789	4,453	664	17.5
Total operating expenses.....	₩ 22,964	₩ 23,734	₩ 770	3.4%

N.A. means not available.

- (1) Including other operating expenses (which include miscellaneous expenses, loss on disposal of property and equipment, impairment loss on property and equipment, loss on disposal of intangible assets, loss on disposal of investments in associates and joint ventures, impairment loss on investments in associates and joint ventures and donations), amortization of intangible assets, rent, insurance premium, utilities, international interconnection fee, installation fee, taxes and dues, research and development expenses, provision and advertising expenses.

Total operating expenses increased by 3.4%, or ₩770 billion, from ₩22,964 billion in 2012 to ₩23,734 billion in 2013 primarily due to increases in other operating expenses, change of inventories, service costs, depreciation and salaries and wages, the impact of which was partially offset by a decrease in purchase of inventories. Specifically:

- Other operating expenses increased by 17.5%, or ₩664 billion, from ₩3,789 billion in 2012 to ₩4,453 billion in 2013, primarily due to loss on disposal of approximately ₩277 billion in 2013 in connection with the expenses incurred for our business support system project, as well as loss on disposal of approximately ₩220 billion in 2013 on our obsolete tangible and intangible assets.
- We recorded an increase in inventories of ₩259 billion in 2012, compared to a decrease of ₩321 billion in 2013, primarily due to temporary year-end accounting treatment of inventories for a shipment of smartphones which were in transit at the end of 2012, as well as an increase in impairment loss by ₩66 billion on our merchandise inventories incurred in 2013 compared to 2012.
- Service cost increased by 45.1%, or ₩570 billion, from ₩1,264 billion in 2012 to ₩1,834 billion in 2013 as a result of increases in expenses relating to our systems/network integration business and expenses relating to purchase of multimedia contents from third-party developers.
- Depreciation expenses increased by 7.4%, or ₩214 billion, from ₩2,894 billion in 2012 to ₩3,108 billion in 2013 primarily due to an increase in depreciation expenses of ₩271 billion from a full-year recognition of depreciation expenses of KT Rental's operating assets, which became our consolidated subsidiary starting in July 2012 as described above.
- Salaries and wages increased by 6.2%, or ₩192 billion, from ₩3,097 billion in 2012 to ₩3,289 billion in 2013 primarily due to an increase in the number of our employees resulting from our newly consolidated subsidiaries in 2013, as well as an increase in salaries and severance benefits in 2013.

These factors were partially offset by the following:

- Our operating expenses related to purchase of inventories decreased by 26.5%, or ₩1,285 billion, from ₩4,851 billion in 2012 to ₩3,566 billion in 2013 primarily due to a decrease in the number of smartphones sold as discussed above.

Operating Profit

Due to the factors described above, our operating profit decreased by 80.8%, or ₩1,357 billion, from ₩1,680 billion in 2012 to ₩323 billion in 2013. Our operating margin, which is operating profit as a percentage of operating revenues, decreased from 6.8% in 2012 to 1.3% in 2013.

Finance Income (Costs)

The following table presents a breakdown of our finance income and costs and changes therein for 2012 and 2013:

	For the Year Ended December 31,		Changes	
			2012 vs. 2013	
	2012	2013	Amount	%
	(In billions of Won)			
Interest income	₩ 203	₩ 109	₩ (94)	(46.3)%
Interest expense	(472)	(450)	22	(4.7)
Net foreign currency transaction gain (loss)	2	6	4	200.0
Net foreign currency translation gain (loss)	259	100	(159)	(61.4)
Net loss on settlement of derivatives	(5)	(3)	2	(40.0)
Net gain (loss) on valuation of derivatives	(241)	(105)	136	(56.4)
Net other finance costs ⁽¹⁾	(29)	(25)	4	(13.8)
Net finance costs	₩ (283)	₩ (368)	₩ (85)	30.0%

N.A. means not available.

(1) Including net other finance income and expenses, loss on disposal of trade receivables and impairment loss on available-for-sale financial assets.

Our net finance costs increased by 30.0%, or ₩85 billion, from ₩283 billion in 2012 to ₩368 billion in 2013 primarily due to decreases in net foreign currency translation gain and interest income, the impact of which was partially offset by a decrease in net loss on valuation of derivatives. Specifically:

- Our net foreign currency translation gain decreased by 61.4%, or ₩159 billion, from ₩259 billion in 2012 to ₩100 billion in 2013, as the Market Average Exchange Rate of the Won against the U.S. dollar appreciated from ₩1,153.3 to US\$1.00 as of December 31, 2011 to ₩1,071.1 to US\$1.00 as of December 31, 2012, and further appreciated at a lesser pace to ₩1,055.3 to US\$1.00 as of December 31, 2013. The impact of such decrease in net foreign currency translation gain was partially offset by a decrease in net loss on valuation of derivatives discussed below.
- Our interest income decreased by 46.3%, or ₩94 billion, from ₩203 billion in 2012 to ₩109 billion in 2013 primarily due to a decrease in our average balance of interest-earning assets from 2012 to 2013, resulting from a reduction in our accounts receivables from our handset sales in 2013 due to the reasons discussed above, as well as a decrease in general interest rates from 2012 to 2013.

These factors were partially offset by the following:

- Net loss on valuation of derivatives decreased by 56.4%, or ₩136 billion, from ₩241 billion in 2012 to ₩105 billion in 2013, primarily due to a decrease in losses from our currency swap contracts due to the lower rate of appreciation of the exchange rates of the Won against the Japanese Yen and the U.S. dollar from December 31, 2012 to December 31, 2013.

Income (Loss) from Jointly Controlled Entities and Associates

Income from jointly controlled entities and associates decreased by 61.1%, or ₩11 billion, from ₩18 billion in 2012 to ₩7 billion in 2013, primarily due to the loss of income recognized under this line item from KT Rental in 2013, as it became our consolidated subsidiary in July 2012, and we recorded an income of ₩9 billion from KT Rental in 2012, as any associated gains from KT Rental until July 2012 were recognized under this line item.

Income Tax Expense

Our income tax expense decreased by 82.0%, or ₩228 billion, from ₩278 billion in 2012 to ₩50 billion in 2013 primarily due to our recognition of a loss from continuing operations before income tax of ₩38 billion in 2013 compared to a profit from continuing operation of ₩1,415 billion in 2012. We incurred a tax expense despite incurring a loss before income tax in 2013, as we, in preparing our consolidated financial statements, aggregate the tax results of ourselves and our subsidiaries, which had taxable income. See Note 29 to the Consolidated Financial Statements. We had an effective tax rate of 19.6% in 2012. We had net deferred income tax assets of ₩473 billion as of December 31, 2012 and ₩537 billion as of December 31, 2013.

Profit from Discontinued Operations

We recognized a loss from discontinued operations of ₩32 billion in 2012, compared to none in 2013, primarily due to the loss recognized from our sale of our 93.8% interest in KT Tech, Inc. in August 2012, as well as our share of net loss of KT Tech, Inc. until the completion of sale, which we recorded under this category in 2012, whereas there were no discontinued operations in 2013 which required recognition of income or loss under this category.

Profit for the Period

Due to the factors described above, we recorded a profit for the period of ₩1,105 billion in 2012, compared to a loss of ₩88 billion in 2013. Our net income margin, which is profit for the period as a percentage of operating revenues, was 4.5% in 2012, and our net loss margin, which is loss for the period as a percentage of operating revenues, was 0.4% in 2013.

Segment Results – Customer/Marketing Group

Our operating revenues for this segment, prior to adjusting for inter-segment transactions, decreased by 6.2%, or ₩994 billion, from ₩15,932 billion in 2012 to ₩14,938 billion in 2013, primarily due to a decrease in revenues from individual fixed-line telephone subscribers.

Our operating income for this segment, prior to adjusting for inter-segment transactions, decreased by 92.9%, or ₩681 billion, from ₩733 billion in 2012 to ₩52 billion in 2013, as the 6.2% decrease in the segment's operating revenues outpaced a 2.1% decrease in operating expenses, primarily due to the reasons discussed above. Operating margin, which is operating income as a percentage of total operating revenues prior to adjusting for inter-company sales, decreased from 4.6% in 2012 to 0.3% in 2013.

Depreciation and amortization, prior to adjusting for inter-segment transactions, increased slightly by 0.2%, or ₩5 billion, from ₩2,440 billion in 2012 to ₩2,445 billion in 2013.

Segment Results – Enterprise Sales Group

Our operating revenues for this segment, prior to adjusting for inter-segment transactions, decreased by 0.5%, or ₩14 billion, from ₩2,931 billion in 2012 to ₩2,917 billion in 2013, primarily due to the spin-offs of KT Sat Co., Ltd., KT Estate Inc. and KT Media Hub Co., Ltd. during 2013 and the corresponding decrease in operating revenues from such subsidiaries which were recognized under this segment.

Our operating income for this segment, prior to adjusting for inter-segment transactions, decreased by 27.8%, or ₩91 billion, from ₩327 billion in 2012 to ₩236 billion in 2013, as operating revenues decreased by 0.5% while operating expenses increased by 3.0%, primarily due to an increase in rental expenses recognized under this segment in connection with the sale and leaseback transactions of certain real estate properties which occurred during 2011 and 2012. Operating margin decreased from 11.2% in 2012 to 8.1% in 2013.

Depreciation and amortization, prior to adjusting for inter-segment transactions, increased by 0.2%, or ₩1 billion, from ₩485 billion in 2012 to ₩486 billion in 2013.

Segment Results – Finance/Rental Business Group

Our operating revenues for this segment, prior to adjusting for inter-segment transactions, increased by 9.0%, or ₩336 billion, from ₩3,717 billion in 2012 to ₩4,053 billion in 2013, primarily due to the consolidation of full year revenues in 2013 from KT Rental Co., Ltd. which became our consolidated subsidiary starting in July 2012.

Our operating income for this segment, prior to adjusting for inter-segment transactions, increased by 51.4%, or ₩95 billion, from ₩185 billion in 2012 to ₩280 billion in 2013, as the 9.0% increase in the segment's operating revenues outpaced a 6.8% increase in operating expenses, primarily due to the reasons discussed above. Operating margin increased from 5.0% in 2012 to 6.9% in 2013.

Depreciation and amortization, prior to adjusting for inter-segment transactions, increased by 119.8%, or ₩218 billion, from ₩182 billion in 2012 to ₩400 billion in 2013, primarily due to the effect of full-year consolidation of KT Rental Co., Ltd. and the related assets in 2013 as described above, as well as additional purchases of automobiles by KT Rental Co., Ltd. during 2013 which increased the depreciable asset base.

Segment Results – Others

Our operating revenues for this segment, prior to adjusting for inter-segment transactions, increased by 19.8%, or ₩842 billion, from ₩4,252 billion in 2012 to ₩5,094 billion in 2013, primarily due to the spin-offs of KT Sat Co., Ltd., KT Estate Inc. and KT Media Hub Co., Ltd. during 2013 and the corresponding recognition of operating revenues from such subsidiaries under this segment.

Our operating income for this segment, prior to adjusting for inter-segment transactions, increased by 245.8%, or ₩204 billion, from ₩83 billion in 2012 to ₩287 billion in 2013, as the 19.8% increase in the segment's operating revenues outpaced a 15.3% increase in operating expenses, primarily due to the reasons discussed above. Operating margin increased from 2.0% in 2012 to 5.6% in 2013.

Depreciation and amortization, prior to adjusting for inter-segment transactions, increased by 58.5%, or ₩86 billion, from ₩147 billion in 2012 to ₩233 billion in 2013, primarily due to the increase in depreciable assets under this segment due to the spin-off of subsidiaries as discussed above.

2. Liquidity and Capital Resources

The following table sets forth the summary of our cash flows for the periods indicated:

	For the Years Ended December 31,		
	2012	2013	2014
	(In billions of Won)		
Net cash provided by operating activities.....	₩5,725	₩4,111	₩1,916
Net cash used in investing activities.....	(3,851)	(3,783)	(3,171)
Net cash provided by (used in) financing activities.....	(1,278)	(312)	1,072
Cash and cash equivalents at beginning of period.....	1,462	2,058	2,071
Cash and cash equivalents at end of period	2,058	2,071	1,889
Net increase (decrease) in cash and cash equivalents ...	595	13	(182)

Capital Requirements

Historically, our capital requirements consisted principally of purchases of property and equipment and other assets and repayments of borrowings. In our investing activities, we used cash of ₩3,760 billion in 2012, ₩3,088 billion in 2013 and ₩2,853 billion in 2014 for the acquisition of property and equipment and investment property, primarily construction-in-progress. In our financing activities, we used cash of ₩4,591 billion in 2012, ₩5,956 billion in 2013 and ₩8,757 billion in 2014 for repayment of borrowings and bonds.

In recent years, we have also required capital for payments of retirement and severance benefits related to our early retirement programs. We recorded cash outflows from payments of severance benefits of ₩111 billion in 2012, ₩371 billion in 2013 and ₩1,427 billion in 2014. In 2014, our payments were particularly high due to the special voluntary early retirement program held in April 2014 described in “—Overview” above.

From time to time, we may also require capital for investments involving acquisitions, including shares of our affiliates, and strategic relationships. For example, in October 2011, we, through our subsidiary KT Capital Co., Ltd., acquired an additional 1,622,520 common shares of BC Card Co., Ltd. from Woori Bank, Busan Bank and Shinhan Card for approximately ₩252 billion. We acquired an additional 1,349,920 common shares of BC Card Co., Ltd. in January 2012 for approximately ₩287 billion, and owned a 69.54% interest in BC Card Co., Ltd. as of December 31, 2014. Any such additional investments or acquisitions may require significant capital.

Our cash dividends paid to shareholders and non-controlling interests amounted to ₩498 billion in 2012, ₩511 billion in 2013 and ₩223 billion in 2014.

We anticipate that capital expenditures and repayment of outstanding contractual obligations and commitments will represent the most significant use of funds for the next several years. We may also require capital for purchase of shares of our affiliates as well as investments involving acquisitions and strategic relationships. We compete in the telecommunications sector in Korea, which is rapidly evolving. In recent years, business combinations in the telecommunications industry have significantly changed the competitive landscape of the Korean telecommunications industry. We may need to incur additional capital expenditures to keep up with unexpected developments in rapidly evolving telecommunications technology. There can be no assurance that we will be able to secure funds on satisfactory terms from financial institutions or other sources that are sufficient for our unanticipated needs.

Payments of contractual obligations and commitments will also require considerable resources. In our ordinary course of business, we routinely enter into commercial commitments for various aspects of our operations, including repair and maintenance. We have also provided guarantees to our affiliates. See Note 20 to the Consolidated Financial Statements for a disclosure of the guarantees provided.

The following table sets forth selected information regarding our contractual obligations to make future payments as of December 31, 2014:

Contractual Obligations ⁽¹⁾	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(In billions of Won)				
Long-term debt obligations (including current portion of long-term debt)	₩ 11,741	₩ 1,855	₩ 4,973	₩ 2,697	₩ 2,216
Capital lease obligations (including any interests)....	60	23	27	10	—
Operating lease obligations	556	78	153	159	166
Severance payment obligations ⁽²⁾	4,711	125	198	265	4,123

Long-term accounts payable – others.....	927	266	234	204	223
Total.....	<u>₩ 17,995</u>	<u>₩ 2,347</u>	<u>₩ 5,585</u>	<u>₩ 3,335</u>	<u>₩ 6,728</u>
Estimate of interest payment based on contractual interest rates effective as of December 31, 2013 .	—				
	<u>₩ 1,722</u>	<u>₩ 405</u>	<u>₩ 541</u>	<u>₩ 272</u>	<u>₩ 504</u>

- (1) Contractual obligations represent contractual liabilities as of the consolidated balance sheet date excluding refundable deposits for telephone installation and accruals for customer call bonus points, which do not have definitive payment schedules.
- (2) Does not include any severance payments due beyond 10 years, due to the uncertainties involved in the calculation of such payments.

Capital Resources

We have traditionally met our working capital and other capital requirements principally from cash provided by operations, while raising the remainder of our requirements primarily through debt financing. From time to time, we have also disposed of our treasury shares to meet our capital requirements.

Our major sources of cash have been net cash provided by operating activities, including profits for the period, expenses not involving cash payments such as depreciation and amortization, and proceeds from issuance of bonds and borrowings. We expect that these sources will continue to be our principal sources of cash in the future. Profit for the period was ₩1,105 billion in 2012, and we recorded a loss for the period of ₩88 billion in 2013 and ₩941 billion in 2014, due to the reasons discussed in Item 5.A. Operating Results. Non-cash expense adjustments in our statement of cash flows from depreciation and amortization of intangible assets was ₩3,314 billion in 2012, ₩3,621 billion in 2013 and ₩3,855 billion in 2014, primarily reflecting our capital investment activities during the recent years, including our purchase of bandwidths for our operations, investments in LTE-related structures and acquisition of real estate. Cash proceeds from issuance of bonds and borrowings were ₩4,259 billion in 2012, ₩6,200 billion in 2013 and ₩10,037 billion in 2014. As of December 31, 2014, we held 16,249,100 treasury shares.

In 2013, we spun off a portion of our trade receivables relating to handset sales to several special purpose companies, as part of our efforts to improve our cash and asset management. We also entered into asset management agreements with each of these special purpose companies, and will be receiving management fees from such companies. See Note 20 to the Consolidated Financial Statements.

We believe that we have sufficient working capital available to us for our current requirements and that we have a variety of alternatives available to us to satisfy our financial requirements to the extent that they are not met by funds generated by operations, including the issuance of debt securities and bank borrowings denominated in Won and various foreign currencies. For example, we successfully issued (i) US\$350 million of 3.875% notes due 2017 in January 2012, (ii) three series of notes for an aggregate amount of Japanese Yen 30 billion in January 2013, (iii) three series of notes for an aggregate amount of ₩410 billion in April 2013, (iv) US\$300 million floating rate notes due 2018 in August 2013, (v) ₩300 billion of commercial paper due 2019 in February 2014, (vi) US\$650 million of 1.750% notes due 2017 and US\$350 million of 2.625% notes due 2019 in April 2014 and (vii) three series of notes for an aggregate amount of ₩450 billion in January 2015. See Note 41 to the Consolidated Financial Statements. However, our ability to rely on some of these alternatives could be affected by factors such as the liquidity of the Korean and the global financial markets, prevailing interest rates, our credit rating and the Government's policies regarding Won currency and foreign currency borrowings. Other factors which could materially affect our liquidity in the future include unanticipated increase in capital expenditures and decrease in cash provided by operations resulting from a significant decrease in demand for our services. We may also need to raise additional capital sooner than we expect in order to fund unanticipated investments and acquisitions.

Our total equity was ₩13,218 billion as of December 31, 2012, ₩12,837 billion as of December 31, 2013 and ₩11,788 billion as of December 31, 2014.

Liquidity

We had a working capital (current assets minus current liabilities) deficit of ₩749 billion as of December 31, 2012, ₩1,252 billion as of December 31, 2013 and ₩1,213 billion as of December 31, 2014. The following table sets forth the summary of our significant current assets for the periods indicated:

	As of December 31,		
	2012	2013	2014
	(In billions of Won)		

Cash and cash equivalents.....	₩ 2,058	₩ 2,071	₩ 1,889
Short-term loans receivables, net	668	839	710
Trade and other receivables, net	5,908	5,240	4,811
Inventories, net.....	935	674	419

Our cash, cash equivalents and net short-term loans receivable maturing within one year totaled ₩2,726 billion as of December 31, 2012, ₩2,910 billion as of December 31, 2013 and ₩2,599 billion as of December 31, 2014. Under IFRS as issued by IASB, bank deposits held at call and all other highly liquid temporary cash instruments within maturities of three months are considered as cash equivalents. Short-term loans receivables primarily consist of loans and other non-derivative financial assets with fixed or determinable payments that are not quoted in an active market with maturities of twelve months or less.

The following table sets forth the summary of our significant current liabilities for the periods indicated:

	As of December 31,		
	2012	2013	2014
	(In billions of Won)		
Trade and other payables.....	₩ 7,221	₩ 7,414	₩ 6,408
Borrowings	3,197	3,021	2,956

As of December 31, 2014, we entered into various commitments with financial institutions totaling ₩4,555 billion and US\$12 million. See Note 20 to the Consolidated Financial Statements. As of December 31, 2014, ₩1,556 billion was used under these facilities. We have not had, and do not believe that we will have, difficulty gaining access to short-term financing sufficient to meet our current requirements.

Capital Expenditures

We used cash of ₩3,760 billion in 2012, ₩3,088 billion in 2013 and ₩2,853 billion in 2014 for the acquisition of property and equipment and investment property, primarily construction-in-progress.

Our current capital expenditure plan, on a non-consolidated basis, calls for the expenditure of approximately ₩2,700 billion in 2015, which may be adjusted depending on market conditions and our results of operations. The principal components of our capital investment plans are:

- approximately ₩843 billion in general expansion and modernization of our wireless network infrastructure (including approximately ₩798 billion in capital investments for LTE service);
- approximately ₩1,376 billion for general expansion and modernization of our fixed-line network infrastructure; and
- approximately ₩481 billion in capital investments for our other services, including overhead costs.

Inflation

We do not consider that inflation in Korea has had a material impact on our results of operations in recent years. According to data published by The Bank of Korea, annual inflation in Korea was 2.2% in 2012, 1.3% in 2013 and 1.3% in 2014.

3. Research and Development, Patents and Licenses, Etc.

In order to maintain our leadership in the converging telecommunications business environment and develop additional platforms, services and applications, we operate:

- a new business development and incubation center;
- an infrastructure R&D laboratory;
- a service R&D laboratory; and
- a convergence R&D laboratory.

As of December 31, 2014, KT Corporation had 5,045 registered patents domestically and 867 registered patents internationally.

The MSIP has the authority to recommend to network service providers that they provide funds for national research and development of telecommunications technology and related projects. The required annual contribution is 0.5% (0.75% for market dominant service providers like us) of revenues attributable to key communications services (excluding revenues from telecommunications service using an allotted frequency if the consideration for such allotted frequency has been paid) from wireless subscribers for the previous year, and is applicable only to those network service providers who have at least ₩30 billion in total sales for the previous year and have recorded no net loss in the current period. Under the policy, the maximum amount of the annual contribution to be made cannot exceed 70.0% of the net profit for the corresponding period of each company. Including such contributions, total expenditures (which include capitalized expenses) on research and development were ₩476 billion in 2012, ₩309 billion in 2013 and ₩479 billion in 2014.

In recent years, we have focused our research and development efforts in the following areas:

- simplifying complex core networks and reducing costs;
- integration of in-building management solutions for fixed-line and wireless networks;
- aggregating heterogeneous wireless access for double network throughput;
- a broadband internet solution that is 10 times faster using legacy copper and fiber lines;
- a telecommunication cloud solution which combines network resource virtualization with cloud computing resource;
- finding solutions for ultra-definition television set top box and additional solutions for smart IPTV;
- smart home networking solutions for multiple devices, such as smartphones, tablets, computers and IPTV, as well as electric home appliances;
- environment-friendly energy technologies including a smart-grid platform;
- core technologies for convergence services such as Internet of Things ("IoT"), big data, security, networked automobiles, healthcare and bio-informatics; and
- creating a new convergence business model based on Information Communication Technology (ICT) and incubating new businesses.

IV. DIRECTORS AND SENIOR MANAGEMENT AND EMPLOYEES

Directors

Our board of directors has the ultimate responsibility for the administration of our affairs. Our articles of incorporation provide for a board of directors consisting of:

- up to three non-independent directors, including the Chief Executive Officer; and
- up to eight outside directors.

Our current directors are as follows:

Name	Position	Director Since	Date of Birth	Expiration of Term of Office
Non-Independent Directors ⁽¹⁾				
Chang-Gyu Hwang.....	Chief Executive Officer	January 2014 ⁽²⁾	January 23, 1953	2017
Heon Moon Lim.....	Senior Executive Vice President	March 2014	November 15, 1960	2016
Jeong-Tae Park.....	Senior Executive Vice President	March 2015	December 10, 1959	2016
Outside Directors ⁽¹⁾				
Do Kyun Song.....	Chairperson of the Board of Directors, Advisor, Bae, Kim & Lee LLC	March 2013	September 20, 1943	2016
Sang Kyun Cha.....	Professor, Department of Electrical and Computer Engineering, Seoul National University	March 2012	February 19, 1958	2016
Jong-Goo Kim.....	Corporate lawyer, New Dimension Law Group	March 2014	July 7, 1941	2017
Chu-Hwan Yim.....	Director, Korea Information & Communication Industry Institute	March 2014	February 9, 1949	2016
Suk-Gwon Chang.....	Professor, Department of Business, Hanyang University	March 2014	February 21, 1956	2018
Dae-Keun Park.....	Professor, Department of Economics and Finance, Hanyang University	March 2014	March 15, 1958	2017
Dong-Wook Chung.....	Senior Counsel, Kim, Choi & Lim	March 2015	August 22, 1949	2018
Daiwon Hyun.....	Professor, Department of Mass Communication, Sogang University	March 2015	August 1, 1964	2018

(1) All of our non-independent and outside directors beneficially own less than one percent of the issued shares of KT Corporation in the aggregate.

(2) On November 12, 2013, Mr. Suk-Chae Lee resigned from his position as the President and Chief Executive Officer of KT Corporation. Mr. Chang-Gyu Hwang's appointment as the new Chief Executive Officer was approved at an extraordinary general meeting of shareholders held on January 27, 2014.

Chang-Gyu Hwang is a non-independent director and has served as our chief executive officer since January 2014. Prior to joining us, he served as a Distinguished Chair Professor at Sungkyunkwan University, president and National Chief Technology Officer of the Office of Strategic Research and Development Planning at the former Ministry of Knowledge and Economy, president and chief technology officer of the Corporate Technology Office at Samsung Electronics Co., Ltd. and as president and chief executive officer of the Semiconductor Business at Samsung Electronics Co., Ltd. Mr. Hwang holds a bachelor's degree and a master's degree in electric engineering from Seoul National University and a Ph.D. in electronic and computer engineering from the University of Massachusetts, Amherst.

Heon Moon Lim is a non-independent director and has served as senior executive vice president of KT's Customer Business Group since February 2014. He has previously served as a professor of economics and management at Chungnam National University and an executive vice president of KT's Telecom & Convergence Business Group and Home Business Group. Mr. Lim holds a bachelor's degree in business administration from Yonsei University and a Ph.D. in business administration from Seoul National University.

Jeong-Tae Park is a non-independent director and has served as a senior executive vice president of KT's Legal & Ethics Office since February 2014. He has previously served as an executive vice president of KT's Group Shared Service Group, Strategy & Planning Office at KT's Corporate Center and Procurement Strategy Office. Mr. Park holds a bachelor's degree in industrial engineering from Seoul National University and a master's degree in industrial engineering from Korea Advanced Institute of Science and Technology.

Do Kyun Song has served as our outside director since March 2013. He is currently an advisor to the law firm of Bae, Kim & Lee LLC. He was formerly a standing member of the KCC and the chief executive officer of Seoul Broadcasting System Co., Ltd. Mr. Song holds a bachelor's degree in Spanish literature from Hanguk University of Foreign Studies.

Sang Kyun Cha has served as our outside director since March 2012. He is currently a professor of electrical and computer engineering at Seoul National University. Previously, he founded Transact In Memory, Inc. in the United States, which was acquired by SAP AG in 2005, and was subsequently transformed into SAP Labs Korea, Inc. He continues to serve as a director of SAP Labs Korea, Inc. Mr. Cha holds a Ph.D. in database systems from Stanford University.

Jong-Goo Kim has served as our outside director since March 2014. He is currently a corporate lawyer at the New Dimension Law Group. Previously, he served as the minister of the Ministry of Justice and as the head of the Seoul Supreme Prosecutors' Office. Mr. Kim holds both a bachelor's and a master's degree in law from Seoul National University and a Ph.D. in law from Dongguk University.

Chu-Hwan Yim has served as our outside director since March 2014. He is currently the director of the Korea Information & Communication Industry Institute. Mr. Yim was formerly an outside director of Korea Electric Power Corporation, the president of Korea Digital Cable Laboratories, the president of Electronics and Telecommunications Research Institute, and the secretary general of the Telecommunications Technology Association. Mr. Yim holds both a bachelor's and a master's degree in industrial education from Seoul National University and a Ph.D. in telecommunication systems from Technical University of Braunschweig.

Suk-Gwon Chang has served as our outside director since March 2014. He is currently a professor of business administration at Hanyang University and the president of the Korea Operations Research and Management Science Society. Mr. Chang was formerly the dean of Hanyang Cyber University Graduate School and the president of the Korea Association for Telecommunication Policy and Korea Media Management Association. Mr. Chang holds a bachelor's degree in industrial engineering from Seoul National University, a master's degree in industrial engineering from Korea Advanced Institute of Science and Technology, and a Ph.D. in management science from Korea Advanced Institute of Science and Technology.

Dae-Keun Park has served as our outside director since March 2014. He is currently a professor of economics and finance at Hanyang University, the chairperson of the Financial Development Review Committee at the Financial Services Commission and the director of Hanyang Economic Research Institute. Mr. Park was formerly a vice president of the Korea Finance and Money Association and a member of the Steering Committee at the Korea Finance Corporation. Mr. Park holds a bachelor's degree in economics from Seoul National University, a master's degree in management science from Korea Advanced Institute of Science and Technology and a Ph.D. in economics from Harvard University.

Dong-Wook Chung has served as our outside director since March 2015. He is currently a Senior Counsel to the law firm of Kim, Choi & Lim. Mr. Chung was formerly a prosecutor at the Seoul High Prosecutor's Office and the chief prosecutor at the Bucheon Branch of the Incheon District Prosecutor's Office. Mr. Chung holds a bachelor's degree and a master's degree in law from Seoul National University.

Daiwon Hyun has served as our outside director since March 2015. He is currently a professor of mass communication at Sogang University and the chairperson of the Korea Digital Content Industry Forum. Mr. Hyun was formerly the chairperson of the Internet-based Broadcasting Service Promotion Forum and the 'Beautiful Internet World' Forum. Mr. Hyun holds a bachelor's degree and a master's degree in journalism and broadcasting from Sogang University and a Ph.D. in telecommunications and mass media from Temple University.

For the purposes of the Korean Commercial Code, our Chief Executive Officer is deemed to be the "representative director" who is authorized to perform all judicial and extra-judicial acts relating to our business. Our shareholders elect the Chief Executive Officer in accordance with the provisions of the Commercial Code and our articles of incorporation. A candidate for Chief Executive Officer is nominated by a committee formed for that purpose. The Chief Executive Officer Candidate Nominating Committee consists of:

- all of our outside directors; and
- one non-independent director who is not a candidate.

Under our articles of incorporation, the Chief Executive Officer Candidate Nominating Committee must submit a draft management contract between the company and the candidate covering the management objectives of the company to the shareholders' meeting at the time of nomination of the candidate to the meeting. When the draft management contract has been approved at the shareholders' meeting, the company enters into such management contract with the Chief Executive Officer. In such case, the chairperson of the Chief Executive Officer Candidate Nominating Committee, on behalf of the company, signs the management contract.

The board of directors may conduct performance review discussions to determine if the new Chief Executive Officer performed his or her duties under the management contract, or hire a professional evaluation agency for such purpose. If the board of directors determines, based on the results of the performance review, that the new Chief Executive Officer has failed to achieve the management goals, it may propose to dismiss the Chief Executive Officer at a shareholders' meeting.

Senior Management

Our executive officers consist of Senior Executive Vice President, Executive Vice Presidents and Senior Vice Presidents. The executive officers other than the non-independent directors are appointed by the Chief Executive Officer and may serve up to three years.

The current executive officers are as follows:

Name ⁽¹⁾	Title and Responsibilities	Current Position Held Since	Years with the Company ⁽²⁾	Date of Birth
Kyu-Shik Shin	Senior Executive Vice President, Enterprise Sales Business Group	December 2014	4	June 7, 1957
Seong-Mook Oh	Senior Executive Vice President, Network Group	January 2014	29	August 20, 1960
Kyu-Taek Nam	Senior Executive Vice President, Marketing Group	January 2014	29	February 6, 1961
Ki-Chul Kim	Senior Executive Vice President, IT Planning Group	December 2014	10	January 1, 1955
In-Sung Jun	Senior Executive Vice President, Corporate Relationship Group	January 2014	33	October 9, 1958
Hyeon-Mo Ku	Senior Executive Vice President, CEO Office	December 2014	28	January 13, 1964
Myung-Beom Pyun	Executive Vice President, Customer Group, Busan Sales Headquarter	December 2014	18	June 19, 1960
Jong-Jin Chae	Executive Vice President, Enterprise Sales Business Group, Enterprise Business Consulting Unit	December 2014	28	June 25, 1961
Cha-Hyun Yoon	Executive Vice President, Network Group, Gangbuk Network Operation Business Unit	December 2014	30	December 2, 1961
Kook-Hyun Kang	Executive Vice President, Marketing Group, Marketing Strategy Business Unit	December 2014	26	September 8, 1963
Hae-Jung Park	Executive Vice President, Marketing Group, IMC Center	December 2014	8	May 23, 1963
Dong-Myun Lee	Executive Vice President, Institute of Convergence Technology	January 2014	24	October 15, 1962
Mun-Whan Lee	Executive Vice President, Corporate Planning Group	December 2014	26	October 1, 1963
Kwang Suk Shin	Executive Vice President, Corporate Planning Group, Financial Office	December 2014	26	January 5, 1960
Soo-Jung shin	Executive Vice President, Corporate Planning Group, Data & Information Security Unit	August 2014	1	August 10, 1965
Dong-Su Yi	Executive Vice President, Corporate Planning Group, Brand Management Center	February 2015	0	August 26, 1961
Dae-San Lee	Executive Vice President, Management Support Group	December 2014	28	January 10, 1961
Heon-Yong Park	Executive Vice President, Corporate Relationship Group, Corporate Relationship & Cooperation Office	December 2014	21	August 15, 1961
Yeong-Ik Choi	Executive Vice President, Corporate Relationship Group, Corporate Relationship & Support Office	September 2014	20	January 5, 1961

Name ⁽¹⁾	Title and Responsibilities	Current Position Held Since	Years with the Company ⁽²⁾	Date of Birth
Kyoung-Lim Yun	Executive Vice President, Future Convergence Business Office	December 2014	5	June 14, 1963
Yoon-Young Park	Executive Vice President, Future Convergence Business Office, Future Business Development Unit	December 2014	19	April 18, 1962
Cheol-Soo Kim	Executive Vice President, Customer Value Management Office	September 2014	1	February 7, 1963
Sang-Bong Nam	Executive Vice President, Legal & Ethics Office, Legal Affairs Center	January 2014	2	October 19, 1963
In-Hoe Kim	Executive Vice President, CEO Office, Department 2	December 2014	1	June 25, 1964
Jin-Chul Kim	Senior Vice President, Customer Group, Customer Planning Business Unit	December 2014	26	May 25, 1962
Hyon-Seog Lee	Senior Vice President, Customer Group, Sales Operation Business Unit	December 2014	23	March 10, 1962
Young-Ho Kim	Senior Vice President, Customer Group, Sales Operation Business Unit, Mobile Sales Department	December 2014	18	September 3, 1966
Hong-Jae Lee	Senior Vice President, Customer Group, Biz Customer Business Department	December 2014	30	August 29, 1962
Kyeong-Weon Park	Senior Vice President, Customer Group, Fieldwork Support Unit	December 2014	26	June 25, 1963
Sang-Keun Ahn	Senior Vice President, Customer Group, Northern Seoul Sales Headquarter	December 2014	16	September 10, 1962
Jae-Hyeon Kim	Senior Vice President, Customer Group, Southern Seoul Sales Headquarter	December 2014	18	September 26, 1962
Hee-Youp Chang	Senior Vice President, Customer Group, Western Seoul Sales Headquarter	December 2014	29	October 1, 1959
Kyoung-Il Kim	Senior Vice President, Customer Group, Daegu Sales Headquarter	March 2015	18	May 25, 1967
Yang-Hwan Ryoo	Senior Vice President, Customer Group, Jeonnam Sales Headquarter	December 2014	37	October 12, 1958
Man-Soo Oh	Senior Vice President, Customer Group, Jeonbuk Sales Headquarter	December 2014	27	February 9, 1961
Hyeong-Chul Park	Senior Vice President, Customer Group, Chungnam Sales Headquarter	December 2014	29	February 2, 1962
Jong-Jin Barg	Senior Vice President, Customer Group, Chungbuk Sales Headquarter	December 2014	23	August 14, 1963
Dae-Gi Gong	Senior Vice President, Customer Group, Gangwon Sales Headquarter	December 2014	28	March 13, 1960
Sang-Yong Lee	Senior Vice President, Enterprise Sales Business Group, Enterprise Business Consulting Unit, ICT Convergence Business Consulting Department	December 2014	4	December 23, 1967
Ki-Jong Moon	Senior Vice President, Enterprise Sales Business Group, Enterprise Business Performing Unit	December 2014	38	September 30, 1957
Yoon-Sik Jeong	Senior Vice President, Enterprise Sales Business Group, Enterprise Business Consulting Unit	December 2014	6	September 30, 1964
Hee-Kyoung Song	Senior Vice President, Enterprise Sales Business Group, Public Customer Business Unit	December 2014	2	July 24, 1964
Hyung-Joon Kim	Senior Vice President, Enterprise Sales Business Group, Pyung-Chang Winter Olympic Games Business Unit	December 2014	19	November 2, 1963
Chang-Seok Seo	Senior Vice President, Network Group, Network Strategy Unit	December 2014	21	July 5, 1967
Hyun-Meen Jung	Senior Vice President, Network Group, Network Strategy Unit, Access Network Building Department	December 2014	29	November 5, 1960
Cheol-Gyu Lee	Senior Vice President, Network Group, Network Operation & Maintenance Unit	January 2014	29	August 24, 1960
Jae-Yoon Park	Senior Vice President, Network Group, Network Technology Support Unit	December 2014	29	December 18, 1960
Mi-Na Oh	Senior Vice President, Network Technology Support Unit, Core Net Support Department	December 2014	21	April 11, 1969
Young-Sik Kim	Senior Vice President, Network Group, Gangnam Network Operation & Maintenance Headquarter	April 2014	25	March 15, 1961
Ho-Won Moon	Senior Vice President, Network Group, Busan Network Operation & Maintenance Headquarter	April 2014	29	January 7, 1959
Hee-Kwan Ryu	Senior Vice President, Marketing Group, GiGA Business Unit	April 2015	22	July 2, 1962
Pill-Jai Lee	Senior Vice President, Marketing Group, Media Business Unit	April 2015	27	October 3, 1961
Sun-Woo Lee	Senior Vice President, Marketing Group, Enterprise Solution Business Unit	December 2014	24	January 17, 1966
Hyeon-Seuk Lee	Senior Vice President, Marketing Group, Device Business Unit	December 2014	18	November 12, 1966
Hye-Jeong Yun	Senior Vice President, Marketing Group, Service Development Business Unit	December 2014	24	June 12, 1966

Name ⁽¹⁾	Title and Responsibilities	Current Position Held Since	Years with the Company ⁽²⁾	Date of Birth
Young-Myoung Kim	Senior Vice President, Institute of Convergence Technology, Research Support Department, ICT Cooperation Team	January 2014	26	November 13, 1961
Hong-Beom Jeon	Senior Vice President, Institute of Convergence Technology, Infra Laboratory	January 2014	24	October 3, 1962
Sook-Kyung Sung	Senior Vice President, Institute of Convergence Technology Infra Laboratory, Intellectual Property Right Department	January 2014	15	November 18, 1964
Seong-Choon Lee	Senior Vice President, Institute of Convergence Technology, Service Laboratory	January 2014	30	March 28, 1960
Gyung-Pyo Hong	Senior Vice President, Institute of Convergence Technology, Convergence Laboratory	December 2014	28	June 10, 1962
Jae-Ho Jang	Senior Vice President, IT Planning Group, IT Strategy & Planning Department	December 2014	2	July 12, 1962
June-Keun Kim	Senior Vice President, IT Planning Group, Business Infrastructure Department	December 2014	5	November 12, 1966
Jeong-Min Woo	Senior Vice President, IT Planning Group, Next Generation System Development Unit	December 2014	20	February 25, 1964
Jong-Ook Park	Senior Vice President, Corporate Planning Group, Strategy & Planning Office	December 2014	22	January 24, 1962
Dong-Seope Park	Senior Vice President, Corporate Planning Group, Strategy & Planning Office, Strategy & Planning Department	January 2014	30	November 5, 1961
Sang-Wook Seo	Senior Vice President, Corporate Planning Group, Strategy Investment Department	June 2014	3	January 26, 1972
Jung-Yong Moon	Senior Vice President, Corporate Planning Group, Strategy & Planning Office, Affiliate Management Department 1	December 2014	21	August 24, 1962
Won-Sic Hahn	Senior Vice President, Corporate Planning Group, Procurement Cooperation Office	December 2014	30	October 26, 1960
Kyung-Joon Lee	Senior Vice President, Corporate Planning Group, Procurement Cooperation Office, Procurement Strategy Department	December 2014	24	June 2, 1963
Kong-Hwan Lee	Senior Vice President, Management Support Group, Human Resources Office	December 2014	20	September 20, 1966
Hyun-Yok Sheen	Senior Vice President, Management Support Group, Management Support Office	January 2014	22	August 25, 1968
Sung-Q Lee	Senior Vice President, Management Support Group, Management Support Office, Labor Relations Department 1	December 2014	25	December 24, 1965
Jun-Su Jeong	Senior Vice President, Management Support Group, Corporate Culture Office	May 2014	23	November 2, 1962
Young-Min Choi	Senior Vice President, Management Support Group, KT Group HR Development Academy	January 2015	0	September 8, 1961
Young-Suk Jeon	Senior Vice President, Management Support Group, KT Group HR Development Academy Educational Dispatch	February 2015	23	December 14, 1963
Han-Sup Lee	Senior Vice President, Management Support Group, KT Group HR Development Academy Educational Dispatch	February 2015	19	March 6, 1966
Sung-Kyu Yang	Senior Vice President, Management Support Group, KT Group HR Development Academy Educational Dispatch	February 2015	27	March 14, 1962
Dae-Su Park	Senior Vice President, Corporate Relation Group, Economics & Management Research Institute	December 2014	26	October 28, 1963
Hee-Su Kim	Senior Vice President, Corporate Relation Group, Economics & Management Research Institute	December 2014	4	October 15, 1962
Seung-Yong Lee	Senior Vice President, Corporate Relation Group, Creative Economic Initiative Center	December 2014	22	May 18, 1964
Young-Ho Oh	Senior Vice President, Public Relations Office	March 2014	17	September 16, 1962
Jae-Ho Song	Senior Vice President, Future Convergence Business Office, Future Business Strategy Department	December 2014	22	March 26, 1966
Seong-Hoon Kim	Senior Vice President, Future Convergence BUiness Office, Smart Energy Business Unit	December 2014	2	September 29, 1964
Yi-Shik Kim	Senior Vice President, Future Convergence Business Office, Big Data Center	December 2014	2	October 16, 1968
Tae-Sung Lim	Senior Vice President, Global Business Unit	December 2014	24	March 4, 1963
Hwa Jung	Senior Vice President, Customer Value Management Office, In-House Consulting Unit	December 2014	26	August 10, 1964
Weon-Kyung Kim	Senior Vice President, Legal & Ethics Office, Corporate Audit Center	December 2014	24	June 15, 1963

Name ⁽¹⁾	Title and Responsibilities	Current Position Held Since	Years with the Company ⁽²⁾	Date of Birth
Keum-Seok Shin	Senior Vice President, Legal & Ethics Office, Corporate Audit Center, Corporate Audit Department 2	December 2014	25	February 18, 1965
Byung-Sam Park	Senior Vice President, Legal & Ethics Office, Legal Affairs Center, Legal Department 1	April 2014	2	October 13, 1966
Sang-Kwi Chang	Senior Vice President, Legal & Ethics Office, Legal Affairs Center, Legal Department 2	May 2014	1	July 12, 1968
Hyoung-Wook Kim	Senior Vice President, CEO Office Department 1	December 2014	18	April 24, 1963
Kyung-Keun Yoon	Senior Vice President, CEO Office Department 2	December 2014	19	January 14, 1963
Jong-Jin Yoon	Senior Vice President, CEO Office Department 3	February 2015	0	February 9, 1964

(1) All of our executive officers beneficially own less than one percent of the issued shares of KT Corporation in the aggregate.

(2) Does not include period of employment by KT Corporation's affiliates.

Compensation of Directors

In 2014, the total amount of salaries, bonuses (including long-term performance-based incentives for directors) and allowances paid to all directors of KT Corporation for services in all capacities was approximately ₩3.0 billion, which were paid on a cash basis.

Until February 2010, we had no incentive based compensation program for outside directors. Instead, compensation was paid to outside directors in fixed amounts as an allowance for any expenses they incurred in executing their duties. The board of directors introduced a new compensation program for outside directors in March 2010, which consists of cash and stock grants and requires a one year lock-up period, at a ratio of 3 to 1. The total cash basis remuneration for outside directors for 2014 was recorded at ₩617 million.

The compensation of our directors and executive officers who received total annual compensation exceeding ₩500 million in 2014 were as follows:

Name	Position	Total Compensation in 2014	Composition of Total Compensation
(In millions of Won)			
Hwang, Chang-Gyu	Representative Director	₩ 507	₩429 million (salary); ₩75 million (bonus); ₩3 million (benefits)
Pyo, Hyeon Myeong.....	Former President	₩ 641	₩71 million (salary); ₩92 million (bonus); ₩10 million (benefits); ₩468 million (severance)

The chairperson of the Chief Executive Officer Candidate Nominating Committee enters into an employment agreement on our behalf with our Chief Executive Officer. The employment agreement sets certain management targets to be achieved by the Chief Executive Officer, including a target for the amount of "EBITDA" to be achieved in each year. EBITDA is defined as earnings before interest, tax, depreciation and amortization. Failure to achieve certain thresholds below the targets will allow the board of directors to take actions with respect to the Chief Executive Officer's employment, including proposing to the shareholders' meeting an early termination of his employment. In addition, the head of each of our functional departments, the president of each of our subsidiaries and the heads of each regional head office have entered into employment agreements with the Chief Executive Officer that provide for similar management targets to be achieved by each of our departments, subsidiaries and regional head offices.

Employees

On a non-consolidated basis, we had 23,371 employees as of December 31, 2014, compared to 32,451 employees as of December 31, 2013 and 32,186 employees as of December 31, 2012.

Voluntary Early Retirement Plans

We regularly sponsor voluntary early retirement plans where we provide additional financial incentives for our employees to retire early, as part of our efforts to improve operational efficiencies. In 2012, 2013 and 2014, 183, 269 and 8,345 employees, respectively, retired under this program.

In April 2014, we announced the commencement of a special early retirement program for employees who have been employed by us for more than 15 years. This special early retirement program provides our employees with incentives to retire early as part of our efforts to improve operational efficiencies. Our employees will be offered the option of either receiving additional severance payment or employment for two years at certain of our subsidiaries or affiliates as part of the special retirement scheme. The special voluntary early retirement program resulted in the early retirement of 8,304 employees. In aggregate, 8,345 employees retired in 2014 under the regular voluntary early retirement plan and the special voluntary early retirement program. We paid ₩1.3 trillion as severance benefits in connection with our early retirement programs during 2014, which was financed through cash on hand and bond issuances.

Labor Relations

We consider our current relations with our work force to be good. However, 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.

As of December 31, 2014, about 75.8% of the employees of KT Corporation were members of the KT Trade Union. On behalf of its members, the Union negotiates with us a collective bargaining agreement every two years, and our current collective bargaining agreement expires on May 23, 2015. The current collective bargaining agreement provides that even in the event of a strike, the minimum number of employees necessary to operate the telecommunications business must continue to work.

The Union also negotiates with us an annual agreement on wages on behalf of its members. Under the Act of the Promotion of Worker's Participation and Cooperation, our Employee-Employer Cooperation Committees, which are composed of representatives of management and labor for each business unit and regional office, meet quarterly to discuss employee grievances, working conditions and potential employee-initiated improvements in service or management.

Recent amendments to the Trade Union and Labor Relations Adjustment Act ("Labor Act"), which became effective on July 1, 2011, allow multiple labor unions to be formed within one company. Therefore, additional labor unions may be formed by our employees. Pursuant to such amendments, our employees formed a new labor union called "KT New Union" in August 2011. The amended Labor Act also requires such multiple unions to consolidate themselves into a single channel when negotiating with the company on behalf of their members and to enter into a single collective bargaining agreement with the company. As a result of the recent consolidation of labor unions, KT Trade Union was selected as the bargaining representative of the labor unions. Its term as the bargaining representative will last for two years from January 1, 2014, and will expire on December 31, 2015.

Employee Stock Ownership and Benefits

We have an employee stock ownership association, which may purchase on behalf of its members up to 20.0% of any of our shares offered publicly in Korea. The employee stock ownership association owned 0.64% of our issued shares as of December 31, 2014.

In accordance with the National Pension Act of Korea, we contribute an amount equal to 4.5% of an employee's standard monthly wages, and each employee contributes 4.5% of his or her standard monthly wages, into his or her personal pension account. Our employees, including executive officers as well as non-executive employees, are subject to a pension insurance system, under which we make monthly contributions to the pension accounts of the employees, and upon retirement, such employees are paid the pension amount due from their pension accounts. Prior to April 2011, our executive and non-executive employees were subject to a lump-sum severance payment system, under which they were entitled to receive a lump-sum severance payment upon termination of their employment, based on their length of service and salary level at the time of termination. Starting in April 2011, in accordance with the Korean Employee Retirement Income Security Act, we replaced such lump-sum severance payment system with our current pension insurance system in the form of a defined benefit plan, and also introduced a defined contribution plan in December 2012, with a total combined unfunded portion of approximately ₩503 billion as of December 31, 2014. Lump-sum severance amounts previously accrued prior to our adoption of the current pension insurance system continue to remain payable. We also provide a wide range of fringe benefits to our employees, including housing, housing loans, company-provided hospitals and schools, a company-sponsored pension program, an employee welfare fund, industrial disaster insurance, cultural and athletic facilities, physical education grants, meal allowances, medical examinations and training and resort centers.

Employee Training

The objective of our training program is to develop information and technology specialists who are able to create value for our customers. In order to develop skills of our employees, we require 60 hours of training per year from most of our employees, using individually-tailored curriculums based on individual assessments. We also operate Cyber Academy to provide online classes to our employees, as well as offer various foreign language classes to our employees. In addition, we provide tuition and living expense reimbursements to our high potential individuals who pursue graduate programs in Korea and abroad, as well as provide financial assistance to those who pursue work-related professional licenses or participate in after-work study programs.

V. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to foreign exchange rate and interest rate risks primarily associated with underlying liabilities, and to equity price risk as a result of our investment in equity securities. Our long-term financial policies are annually reported to our Board of Directors, and our Finance Office conducts financial risk management and assessment. Upon identification and evaluation of our risk exposures, we, having considered various circumstances, enter into derivative financial instruments to try to manage some of such risks. These contracts are entered into with major financial institutions, thereby minimizing the risk of credit loss. The activities of our finance division are subject to policies approved by our foreign exchange and interest rate risk management committee. These policies address the use of derivative financial instruments, including the approval of counterparties, setting of limits and investment of excess liquidity. Our general policy is to hold or issue derivative financial instruments largely for hedging purposes.

For our trading financial instruments, we recognized a valuation gain of ₩0 billion and a valuation loss of ₩0 billion in 2012, a valuation gain of ₩4 billion and a valuation loss of ₩10 billion in 2013 and a valuation gain of ₩1 billion and a valuation loss of ₩1 billion in 2014. For our hedging derivative contracts, we recognized a valuation gain of ₩0 billion, a valuation loss of ₩241 billion and accumulated other comprehensive loss of ₩171 billion in 2012, a valuation gain of ₩0 billion, a valuation loss of ₩97 billion and accumulated other comprehensive loss of ₩95 billion in 2013 and a valuation gain of ₩93 billion, a valuation loss of ₩25 billion and accumulated other comprehensive income of ₩22 billion in 2014. For further details regarding the assets, liabilities, gains and losses recorded relating to our derivative contracts outstanding as of December 31, 2012, 2013 and 2014, see Note 8 to the Consolidated Financial Statements.

Exchange Rate Risk

Substantially all of our cash flow is denominated in Won. We are exposed to foreign exchange risk related to foreign currency denominated liabilities and anticipated foreign exchange payments. Anticipated foreign exchange payments, mostly in Dollars, relate primarily to payments of foreign currency denominated debt, net settlements paid to foreign telecommunication carriers and payments for equipment purchased from foreign suppliers. We have entered into several currency swap contracts, combined interest currency swap contracts and currency forward contracts to hedge our foreign currency risks.

The following table shows our assets and liabilities denominated in foreign currency as of December 31, 2012, 2013 and 2014:

(in thousands of foreign currencies)	As of December 31,					
	2012		2013		2014	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets	Financial liabilities
U.S. Dollar	217,488	2,377,137	254,917	2,225,700	197,221	2,532,614
Special Drawing Right.....	494	1,130	1,105	1,211	573	1,027
Japanese Yen.....	657,947	35,102,877	190,520	30,054,316	34,168	30,051,367
British Pound	1	9	—	134	—	257
Euro.....	5,395	2,614	1,342	4,943	134	177
Algerian Dinar.....	3,770	—	2,798	—	929	—
Chinese Yuan	10,236	197	—	—	3,957	—
Uzbekistani Som.....	7,920,825	38,727,985	1,805,565	—	7,978,633	—
Rwandan Franc	—	—	11,962	—	13,593	—
Indonesian Rupiah.....	347,447	—	—	—	—	—
Hong Kong Dollar	—	—	—	—	158	—
Bangladeshi Taka.....	—	—	—	—	299	—
Colombian Peso	—	—	—	—	23,583	—
Polish Zloty.....	—	—	—	—	28,195	—
Vietnamese Dong	—	—	—	—	273,313	93,756
Swiss Franc	—	—	—	—	—	78

As of December 31, 2012, 2013 and 2014, a 10% increase in the exchange rate between the Won and all foreign currencies, with all other variables held constant, would have decreased our income before income tax by ₩65 billion, ₩46 billion and ₩45 billion, respectively, and total equity by ₩52 billion, ₩48 billion and ₩38

billion, respectively, with a 10% decrease in the exchange rate having the opposite effect. The foregoing sensitivity analysis assumes that all variables other than foreign exchange rates are held constant, and as such, does not reflect any correlation between foreign exchange rates and other variables, nor our decision to decrease the risk. See Note 35 to the Consolidated Financial Statements.

Interest Rate Risk

We are also subject to market risk exposure arising from changing interest rates. A reduction of interest rates increases the fair value of our debt portfolio, which is primarily of a fixed interest nature. We use, to a limited extent, interest rate swap contracts and combined interest rate and currency swap contracts to reduce interest rate volatility on some of our debt and manage our interest expense by achieving a balanced mixture of floating and fixed rate debt. We entered into several interest rate swap contracts in which we exchange fixed interest rate payments with variable interest rate payments for a specified period, as well as entered into the combined interest rate and currency swap contracts to hedge our interest rate risk.

The following table summarizes the principal amounts, fair values, principal cash flows by maturity date and weighted average interest rates of our short-term and long-term liabilities as of December 31, 2014 which are sensitive to exchange rates and/or interest rates. The information is presented in Won, which is our reporting currency:

	2015	2016	2017	2018	Thereafter	December 31, 2014	
						Total	Fair Value
	(in millions of Won, except rates)						
Local currency:							
Fixed rate.....	2,325,559	1,934,968	1,505,000	1,161,409	2,967,024	9,893,960	9,864,603
Average weighted rate ⁽¹⁾	3.61%	4.16%	3.47%	3.86%	3.64%	3.73%	—
Variable rate.....	40,000	40,000	—	—	—	80,000	79,782
Average weighted rate ⁽¹⁾	2.52%	2.94%	—%	—%	—%	2.73%	—
Sub-total.....	2,365,559	1,974,968	1,505,000	1,161,409	2,967,024	9,973,960	9,944,385
Foreign currency:							
Fixed rate.....	492,515	387,305	1,099,200	62,570	494,640	2,536,230	2,568,710
Average weighted rate ⁽¹⁾	4.49%	3.64%	2.50%	0.86%	3.49%	3.21%	—
Variable rate.....	2,198	—	—	329,760	—	331,958	308,347
Average weighted rate ⁽¹⁾	2.62%	—%	—%	1.41%	—%	1.42%	—
Subtotal.....	494,713	387,305	1,099,200	392,330	494,640	2,868,188	2,877,057
Total.....	2,860,272	2,362,273	2,604,200	1,553,739	3,461,664	12,842,148	12,821,442

(1) Weighted average rates of the portfolio at the period end.

As of December 31, 2012 and 2014 a 100 basis point increase in the market interest rates, with all other variables held constant, would have decreased our profit before income tax by ₩562 million and ₩5 billion, respectively and increased our profit before income tax by ₩10 billion, as of December 31, 2013. As of December 31, 2012, a 100 basis point increase in the market interest rates, with all other variables held constant would have decreased total equity by ₩368 million, and increased our total equity by ₩13 billion and ₩5 billion, as of December 31, 2013 and 2014, respectively.

As of December 31, 2012, 2013 and 2014, a 100 basis point decrease in the market interest rates, with all other variables held constant, would have decreased our profit before income tax by ₩5 billion, ₩17 billion and ₩5 billion, respectively, and total equity by ₩5 billion, ₩19 billion and ₩11 billion, respectively. The foregoing sensitivity analysis assumes that all variables other than market interest rates are held constant, and as such, does not reflect any correlation between market interest rates and other variables, nor our decision to decrease the risk, but reflects the effects of derivative contracts in place at the time of conducting the analysis.

Equity Price Risk

We are also subject to market risk exposure arising from changes in the equity securities market, which affect the fair value of our equity portfolio. As of December 31, 2012, 2013 and 2014, a 10% increase in the equity indices where our marketable equity securities are listed, with all other variables held constant, would have increased our total equity by ₩5 billion, ₩6 billion and ₩7 billion, respectively, with a 10% decrease in the

equity index having the opposite effect. The foregoing sensitivity analysis assumes that all variables other than changes in the equity index are held constant, and that our marketable equity instruments had moved according to the historical correlation to the index, and as such, does not reflect any correlation between the equity index and other variables.

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, 2013 and 2014, maximum exposure to credit risk is as follows.

<i>(In millions of Korean won)</i>	2013	2014
Cash equivalents(except cash on hand)	₩ 2,065,157	₩ 1,884,745
Trade and other receivables ¹	6,053,040	5,659,913
Loans receivable	1,348,597	1,295,282
Finance lease receivables	709,937	584,413
Other financial assets		
Financial assets at fair value through the profit or loss	15,643	6,983
Derivative used for hedging	3,496	41,540
Time deposits and others	582,693	455,622
Available-for-sale financial assets	25,978	27,870
Held-to-maturity financial assets	3,248	7,767
Financial guarantee contracts ²	389,814	55,393
Total	₩ 11,197,603	₩ 10,019,528

¹ As of December 31, 2014, the Company is provided with a payment guarantee of ₩ 674,768 million from Seoul Guarantee Insurance related to the sale of certain accounts receivable arising from the handset sales.

² Total amounts guaranteed by the Company according to the guarantee contracts.

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 date of the end of each reporting period to the contractual maturity date. These amounts are contractual undiscounted cash flows.

<i>(in millions of Korean won)</i>	2013.12.31			
	Less than 1 year	1-5 years	More than 5 years	Total
Trade and other payables	₩ 7,429,289	₩ 789,999	₩ 352,928	₩ 8,572,216
Finance lease payables	22,498	52,877	-	75,375
Borrowings(including bonds payable)	3,147,761	5,408,176	3,468,282	12,024,219

Other non-derivative financial liabilities	-	3,166	53,704	56,870
Financial guarantee contracts ¹	389,814	-	-	389,814
Total	₩ 10,989,362	₩ 6,254,218	₩ 3,874,914	₩ 21,118,494

2014.12.31				
(in millions of Korean won)	Less than 1 year	1-5 years	More than 5 years	Total
Trade and other payables	₩ 6,973,931	₩ 1,028,043	₩ 254,852	₩ 8,256,826
Finance lease payables	22,516	37,382	-	59,898
Borrowings(including bonds payable)	2,986,372	6,508,681	4,162,910	13,657,963
Other non-derivative financial liabilities	405	3,441	-	3,846
Financial guarantee contracts ¹	55,393	-	-	55,393
Total	₩ 10,038,617	₩ 7,577,547	₩ 4,417,762	₩ 22,033,926

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.

2012.12.31				
(in millions of Korean won)	Less than 1 year	1-5 years	More than 5 years	Total
Outflow	₩ 1,020,494	₩ 1,507,287	₩ 41,292	₩ 2,569,073
Inflow	949,921	1,550,822	45,093	2,545,836

2013.12.31				
(in millions of Korean won)	Less than 1 year	1-5 years	More than 5 years	Total
Outflow	₩ 971,454	₩ 1,377,071	₩ 38,795	₩ 2,387,320
Inflow	910,488	1,256,407	41,648	2,208,543

2014.12.31				
(in millions of Korean won)	Less than 1 year	1-5 years	More than 5 years	Total
Outflow	₩ 242,051	₩ 2,282,242	₩ 38,795	₩ 2,563,088
Inflow	210,045	2,217,211	43,418	2,470,674

VI. CORPORATE GOVERNANCE STATEMENT

1. Corporate Governance

We follow the corporate governance standard pursuant to the Commercial Code of Korea as mandatorily required. English version of the Commercial Code of Korea is available at www.moleg.go.kr/english. The following is a summary of the significant corporate governance standards that we follow under Korean law:

KT Corporation's Corporate Governance Practice

Director Independence

The Commercial Code of Korea requires that our board of directors must comprise no less than a majority of outside directors. Our outside directors must meet the criteria for outside directorship set forth under the Commercial Code of Korea.

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), and 8 out of 11 directors are outside directors.

Nominating/Corporate Governance Committee

We have not established a nominating/corporate governance committee composed entirely of independent directors. However, we maintain an Outside Director Candidate Nominating Committee composed of all of our outside directors and one non-independent director. We also maintain a Corporate Governance Committee comprised of four outside directors and one non-independent director. The committee is responsible for the review of matters with respect to our Corporate Governance Guidelines and our performance under such guidelines to monitor effectiveness of our corporate governance.

Compensation Committee

We maintain an Evaluation and Compensation Committee composed of four outside directors.

Executive Session

Our outside directors hold meetings solely attended by outside directors in accordance with the charter of our board of directors.

Audit Committee

We maintain an Audit Committee comprised of four outside directors who meet the applicable independence criteria set forth under Rule 10A-3 under the Exchange Act.

Shareholder Approval of Equity Compensation Plan

We currently have two equity compensation plans: one providing for the grant of stock options to officers and non-independent directors; and an employee stock ownership association program.

All material matters related to the granting stock options are provided in our articles of incorporation, and any amendments to the articles of incorporation are subject to shareholders' approval. Matters related to the employee stock ownership association program are not subject to shareholders' approval under Korean law.

Corporate Governance Guidelines

We have adopted Corporate Governance Guidelines in March 2007 setting forth our practices with respect to corporate governance matters. Our Corporate Governance Guidelines are in compliance with Korean law but do not meet all requirements established by the New York Stock Exchange for U.S. companies listed on the exchange. A copy of our Corporate Governance Guidelines in Korean is available on our website at www.kt.com.

Code of Business Conduct and Ethics

We have adopted a Code of Ethics for all directors, officers and employees. A copy of our Code of Ethics in Korean is available on our website at www.kt.com

2. Controls and Procedures

Disclosure Controls and Procedures

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of December 31, 2014. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2014. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed by, and under the supervision of, our principal executive, principal operating and principal financial officers, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records, that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. 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.

Originally issued in 1992, the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "1992 Framework") was amended in May 2013 (as amended, the "2013 Framework"), with application of the 1992 Framework available until December 15, 2014, after which only the 2013 Framework will be available. Our management has performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2014 utilizing the criteria discussed in the 2013 Framework. Based on this assessment, we concluded that our internal control over financial reporting was effective as of December 31, 2014.

Samit PricewaterhouseCoopers, an independent registered public accounting firm, which also audited our consolidated financial statements as of, and for the year ended December 31, 2014, as stated in their report which is included herein, has issued an attestation report on the effectiveness of our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

We completed the implementation of the New ERP System in July 2012, and changed, established or reevaluated any related parts in our internal control over financial reporting accordingly. We also conducted evaluations prior to and after the implementation of the New ERP System, and confirmed that our internal control over financial reporting remains effective.

3. Administrative, Management and Supervisory Bodies and Committees

As of December 31, 2014, none of our non-independent or outside directors maintained directors' service contracts with us or with any of our subsidiaries providing for benefits upon termination of employment.

General Meeting of Shareholders

We hold the annual general meeting of shareholders within three months after the end of each fiscal year. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

- as necessary;
- at the request of shareholders of an aggregate of 3.0% or more of our issued Common Shares;
- at the request of shareholders holding an aggregate of 1.5% or more of our issued Shares for at least six months; or
- at the request of our audit committee.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of less than 1.0% of the total number of issued and outstanding Common Shares, we may give notice by placing at least two public notices in at least two daily newspapers at least two weeks in advance of the meeting. Currently, we use Seoul Shinmun, Maeil Business Newspaper and The Korea Economic Daily published in Seoul for this purpose. Shareholders not on the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting. Holders of Non-Voting Shares are not entitled to receive notice of general meetings of shareholders, but may attend such meetings.

Our general meetings of shareholders are held at our head office, in Seognam, or if necessary, may be held anywhere near our head office or in Seoul.

Board of Directors

All of our directors are elected at the general shareholders' meeting. If the total assets of a company listed on the KRX KOSPI Market as of the end of the preceding year exceeds ₩2,000 billion, which is the case with us, the Commercial Code of Korea requires such company to have more than three outside directors with more than half of its total directors being outside directors. The term of office for a director is up to three years, but the term is extended to the close of the annual shareholders' meeting convened with respect to the last full fiscal year of a director's term of office. If the term of office for a director is not completed and ends before the close of the annual general meeting of shareholders convened with respect to the last full fiscal year of such director's term of office and a new director is appointed in his or her place, the term of office for such replacement director will coincide with the uncompleted remaining term of office of his or her predecessor.

Under the Commercial Code of Korea, we must establish a committee to nominate candidates for outside directors within the board of directors, and outside directors must make up more than half of the total members of the outside director candidate nominating committee. According to our articles of incorporation, such committee must consist of one non-independent director and all of our outside directors, other than for election of an outside director resulting from the expiration of the term of the office, in which case such outside director whose term is expiring may not be a member of the committee. Our Outside Director Candidate Nominating Committee nominates outside director candidates for appointment at the general shareholders' meeting.

Upon the request of any director (to the extent that the board of directors does not separately authorize only a particular director to make such request), a meeting of the board of directors will be assembled. The chairperson of the board of directors is elected from among the outside directors by a resolution of the board of directors. The term of office of the chairperson is for one year.

Corporate Governance Committee

The Corporate Governance Committee is comprised of four outside directors and one non-independent director, Suk-Gwon Chang, Do Kyun Song, Sang Kyun Cha, Dae-Keun Park and Jeong-Tae Park. The chairperson is Suk-Gwon Chang. The committee is responsible for the review of matters with respect to our

Corporate Governance Guidelines and our performance under such guidelines to monitor effectiveness of our corporate governance.

Outside Director Candidate Nominating Committee

The Outside Director Candidate Nominating Committee consists of one non-independent director and all of our outside directors, other than for election of an outside director resulting from the expiration of the term of the office, in which case such outside director whose term is expiring may not be a member of the committee. The committee's duties include reviewing the qualifications of potential candidates and proposing nominees to serve as outside directors on our board of directors to the shareholders at the general meeting of shareholders. The committee members' terms expire immediately after the adjournment of the shareholders' meeting where the outside directors are elected.

Evaluation and Compensation Committee

The Evaluation and Compensation Committee is currently comprised of four outside directors, Chu-Hwan Yim, Do Kyun Song, Suk-Gwon Chang and Daiwon Hyun. The chairperson is Chu-Hwan Yim. The committee's duties include prior review of the Chief Executive Officer's management goals, terms and conditions proposed for inclusion in the management contract of the Chief Executive Officer, including, but not limited to, determining whether the Chief Executive Officer has achieved the management goals, and the determination of compensation of the Chief Executive Officer and the non-independent directors. The committee members are elected by the board after the closing of the annual meeting, and the term of the committee members is for one year.

Executive Committee

The Executive Committee is currently comprised of all of the non-independent directors. The chairperson is Chang-Gyu Hwang. The committee's duties include the establishment and management of branch offices, the acquisition and disposal of real estate having market value between ₩15 billion to ₩30 billion, making investments and providing guarantees between ₩15 billion to ₩30 billion, the disposal and sale of stocks of our subsidiaries, which stocks have a market value of between ₩15 billion and ₩30 billion, provided that no change of control with respect to such subsidiary occurs as a result of such disposal or sale for stocks with market value of ₩10 billion or more, the authorization of charitable contributions between ₩100 million to ₩1 billion and the issuance of certain debt securities.

Related-Party Transactions Committee

The Related-Party Transactions Committee is currently comprised of four outside directors, Dong-Wook Chung, Jong-Goo Kim, Chu-Hwan Yim and Daiwon Hyun. The chairperson is Dong-Wook Chung. This committee reviews transactions between KT Corporation and its subsidiaries and ensures compliance with applicable antitrust laws. The committee members are elected by the board after the annual meeting, and the term of the committee members is for one year.

Audit Committee

Under the Commercial Code of Korea and our articles of incorporation, we are required to establish an audit committee comprised of three or more outside directors comprised of at least two-thirds of the audit committee members. Audit Committee members must also meet the applicable independence criteria set forth under the rules and regulations of the Sarbanes-Oxley Act of 2002. The committee is currently comprised of Jong-Goo Kim, Sang Kyun Cha, Dae-Keun Park and Dong-Wook Chung. The chairperson is Jong-Goo Kim and the financial expert is Dae-Keun Park. Members of the committee are elected by our shareholders at the shareholders' meeting. Our internal and external auditors report directly to the committee.

The duties of the committee include:

- appointing independent auditors;
- approving the appointment and recommending the dismissal of the internal auditor;
- evaluating performance of independent auditors;
- approving services to be provided by the independent auditors;

- reviewing annual financial statements;
- reviewing audit results and reports;
- reviewing and evaluating our system of internal controls and policies; and
- examining improprieties or suspected improprieties.

In addition, in connection with the shareholders' meeting, the committee examines the agenda for, and financial statement and other reports to be submitted by the board of directors, at each shareholders' meeting.

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 enabled SK Telecom to provide fixed-line telecommunications, broadband Internet access and Internet Protocol Television ("IPTV") services together with its mobile telecommunications services. In January 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 enabled 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 30.3% as of December 31, 2014, making us the second largest mobile telecommunications service provider in Korea. SK Telecom had a market share of 50.0% as of December 31, 2014.

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 in January 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. In September 2013, we commenced providing wideband LTE services, which utilizes our adjoining 20 MHz of bandwidth in the 1.8 GHz spectrum to provide transmission speed of up to 150 Mbps, twice faster than those offered under standard LTE services. SK Telecom also began providing its wideband LTE services in September 2013 and LG U+ commenced providing its wideband LTE services in January 2014. In March 2014, our wideband LTE services covered five metropolitan cities in Korea, and we expanded our wideband LTE services to all of Korea in July 2014. As of December 31, 2014, the number of our LTE subscribers exceeded 10.5 million. Furthermore, in March 2014, we commercialized advanced wideband LTE ("Wideband LTE-A") services, which interconnects our 20 MHz of bandwidth in the 1.8 GHz spectrum used to offer wideband LTE services with the 10 MHz of bandwidth in the 900 MHz spectrum used to offer standard LTE services by utilizing inter-band carrier aggregation technology to support transmission speed of up to 225 Mbps, and began additionally interconnecting 10 MHz of bandwidth in the 2.1 GHz spectrum in January 2015 to support transmission speed of up to 300 Mbps under the "Wideband LTE-A X4" service, which offers transmission speed four times faster than those offered under standard LTE services.

In April 2014, LG U+, SK Telecom and we began offering various unlimited mobile service packages, offering mobile subscribers with unlimited voice calls, text messaging, and LTE data. Although we expect that SK Telecom and LG U+ will face similar challenges to those that we expect to face in offering LTE services and in

implementing improvements to LTE technology, such as increased fees and expenses and unforeseeable market responses to the new technology, we cannot assure you that we will continue to be able to successfully compete in fourth-generation mobile telecommunications services. Furthermore, we believe that the continuing intense competition among major telecommunications operators in Korea and the resulting pressure on our fees, including from offerings of unlimited usage plans, may have a material adverse impact on our results of operations.

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, 2014, we had a market share in local telephone service of 81.0% and a market share in domestic long distance service of 78.9%. Further increase in competition may decrease our market shares in such businesses. As part of our efforts to improve our operational efficiencies, we transferred all operations relating to fixed-line sales activities (including on-site sales, line activation, after service, and customer center operations) to our subsidiaries in 2014.

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 42.3% as of December 31, 2014. 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 IPTV 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 KCC 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 are required to 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 KCC 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 KCC 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 are required to 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 KCC at the time of allocation.

In August 2011, the KCC 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 are required to 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 of 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 services, to provide our 4G LTE services starting in January 2012, and also began using the 20 MHz of bandwidth in the 900 MHz spectrum to provide our 4G LTE services starting in September 2013.

In August 2013, the Ministry of Science, ICT and Future Planning further auctioned 50 MHz of bandwidth in the 1.8 GHz spectrum, which had been used by governmental entities such as the military, and 80 MHz of bandwidth in the 2.6 GHz spectrum, which had been used for digital multimedia broadcasting services. We acquired the right to use 15 MHz of bandwidth in the 1.8 GHz spectrum, for which we are required to pay a total usage fee of approximately ₩900 billion during a license period of eight years. SK Telecom acquired the right to use 35 MHz of bandwidth in the 1.8 GHz spectrum and LG U+ acquired the right to use 40 MHz of bandwidth in the 2.6 GHz spectrum. Acquiring the right to use additional bandwidth in the 1.8 GHz spectrum has enabled us to provide Wideband LTE services beginning in September 2013, as 15 MHz of the newly acquired bandwidth in the 1.8 GHz spectrum was adjacent to our existing 20 Mhz of bandwidth in the 1.8 GHz spectrum.

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 84 cities nationwide and major highways in 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 753,000 subscribers as of December 31, 2014. The number of our WiBro subscribers decreased in 2014 compared to 2013, as more WiBro subscribers chose to access the internet using our 4G LTE network rather than WiBro following the introduction and proliferation of 4G LTE services during 2013 and 2014. Furthermore, we focused our subscriber retention efforts during 2014 on our mobile subscribers rather than our WiBro subscribers. We are also continually upgrading our broadband network to enable better FTTH connection, which enhances data transmission 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 also enables us to deliver digital media content, such as IPTV, with higher stability.

In addition, we have been building more advanced mobile telecommunications networks based on LTE technology, which is generally referred to as 4G technology, and commenced providing commercial 4G LTE services in the Seoul metropolitan area in January 2012. We completed the expansion of our 4G LTE service coverage nationwide in October 2012. Several wireless carriers in the United States, Europe and Asia commenced LTE services in recent years and LTE technology is currently widely accepted as the standard 4G technology. LTE technology enables data to be transmitted faster than W-CDMA, up to 300 Mbps for downloading. We believe that the faster data transmission speed of the LTE network allows us to offer significantly improved wireless data transmission services 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.

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. We acquired an additional 1,349,920 common shares of BC Card Co., Ltd. in January 2012 for approximately ₩287 billion, and owned a 69.54% interest in BC Card Co., Ltd. as of December 31, 2014. In January 2011, we acquired 5,600,000 shares of redeemable convertible preferred stock with voting rights and convertible bonds that were 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 IPTV 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 50.1% interest in KT Skylife Co., Ltd. as of December 31, 2014.

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, 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.

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, 2015. 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 Ministry of Science, ICT & Future Planning (the “MSIP”) (ICT standing for Information & Communication Technology) and the KCC, has authority to regulate the telecommunications industry. Until March 2013, regulation of the telecommunications industry had mainly been the responsibility of the KCC. With the establishment of the newly created MSIP on March 23, 2013, however, such regulatory responsibility has mostly been transferred to the MSIP. The MSIP’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 MSIP, it must obtain prior approval from the MSIP for the rates and the general terms for that service. Each year the MSIP designates service providers the rates and the general terms of which must be approved by the MSIP. In recent years, the MSIP had so designated us for local telephone service and SK Telecom for mobile service, and the MSIP, in consultation with the Ministry of Strategy and Finance, currently approves rates charged by us and SK Telecom for such services.

The MSIP currently does not regulate our domestic long-distance, international long-distance, broadband internet access and mobile service rates, but the inability to freely set our local telephone service rates may hurt profits from such business and impede our ability to compete effectively against our competitors.

The form of our standard agreement for providing local network service and each agreement for interconnection with other service providers are also subject to approval by the MSIP. In addition, the MSIP 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 KCC, 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 smartphone users. In August 2011, after discussions with the KCC, we adopted various tariff reduction measures, including a reduction of the monthly fee by ₩1,000 for every mobile subscriber, an exemption of usage charges for SMS, of up to 50 messages per month and the introduction of customized flat rate plans for smartphone users. The MSIP, which took over the KCC's tariff regulation function in March 2013, is planning to gradually reduce and abolish activation fees by the end of 2015. As a result of discussions with the MSIP, in August 2013, we, LG U+ and SK Telecom reduced activation fees by approximately 40%. We reduced our activation fee from ₩24,000 to ₩14,400, SK Telecom reduced its activation fee from ₩39,600 to ₩23,760 and LG U+ reduced its activation fee from ₩30,000 to ₩18,000. In January 2014, the MSIP announced its plans to further reduce activation fees in the second half of 2014 so that such fees would be reduced to 50% of levels then-existing. In August 2014, we, SK Telecom and LG U+ reduced activation fees for new subscribers by approximately 50%. Our activation fee was reduced from ₩14,400 to ₩7,200, SK Telecom's activation fee was reduced from ₩23,760 to ₩11,880 and LG U+'s activation fee was reduced from ₩18,000 to ₩9,000. SK Telecom abolished its activation fee completely in November 2014 and we abolished our activation fee completely in March 2015. There can be no assurance that we will not adopt other tariff-reducing measures in the future to comply with the Government's public policy guidelines or suggestions.

Based on investigations conducted in December 2012 and January 2013, the KCC imposed a combined fine of approximately ₩12 billion on SK Telecom, LG U+ and us in January 2013 (our fine being approximately ₩2.9 billion), for providing subsidies that were higher than those allowed under current regulations to new mobile phone purchasers and subscribers, and also imposed temporary suspensions from recruiting new subscribers ranging from 20 days to 24 days. In March 2013, the KCC again imposed a combined fine of approximately ₩5 billion on SK Telecom, LG U+ and us (our fine being approximately ₩1.6 billion) for continuing to offer subsidies during the suspension period. In July 2013, the KCC imposed a combined fine of approximately ₩67 billion on SK Telecom, LG U+ and us (our fine being approximately ₩20 billion) and also imposed a seven day suspension on us from recruiting new subscribers, also in connection with providing excessive handset subsidies to new subscribers. In December 2013, the KCC again imposed a combined fine of approximately ₩106 billion on SK Telecom, LG U+ and us (our fine being approximately ₩30 billion), which is the largest fine ever imposed by the KCC on local mobile operators for providing excessive subsidies to new subscribers. In March 2014, the MSIP imposed a 45-day suspension on each of us, SK Telecom and LG U+ from recruiting new subscribers as a result of continuing to offer excessive handset subsidies to new subscribers, despite the order from the KCC prohibiting such subsidies. Additionally, the MSIP announced that it plans to bring criminal charges with fines of up to ₩150 million and imprisonment of less than three years against any carrier and responsible personnel that fails to adhere to the suspension or continues to offer illegal subsidies after the suspension is completed. In August 2014, the KCC again imposed a combined fine of approximately ₩58 billion on SK Telecom, LG U+ and us (our fine being approximately ₩11 billion) for providing excessive handset subsidies, and also imposed temporary suspensions on recruiting new subscribers for seven days on SK Telecom and LG U+. In December 2014, the KCC further imposed a fine of approximately ₩8 billion on each of SK Telecom, LG U+ and us for providing excessive handset subsidies and in March 2015 the KCC again imposed a combined fine of approximately ₩34 billion on SK Telecom, LG U+ and us (our fine being approximately ₩9 billion) for violation of regulations relating to handset sales, in connection with a used handset buyback program that we and the other telecommunications operators were promoting.

President Park Geun-hye, who took office on February 25, 2013 as the 18th President of Korea, announced that the new Government will work toward reducing telecommunications service charges and promoting transparency in the decision making of telecommunications service providers. Accordingly, the new Government has set detailed policy objectives to (1) gradually reduce and abolish activation fees by 2015, (2) expand mobile virtual network operator and mobile voice over Internet protocol ("m-VoIP") service, (3) intensify regulations on handset subsidies and (4) construct a data-based tariff system. If the new Government goes forward with its new telecommunications policy, it will increase competition among wireless service providers and our business and our profitability may be adversely affected.

On October 1, 2014, the Act on Improvement of Mobile Telecommunication Device Distribution System (the "Mobile Device Act"), which seeks to lower the cost of communication and reduce handset factory prices by establishing fair and transparent order in the distribution of mobile telecommunication devices, went into effect. The Mobile Device Act regulates, inter alia, the sale and subsidies of mobile devices such as smartphones, with one of its purposes being to induce telecommunication operators to compete in lowering the costs of communications and encourage the manufacturers to reduce handset factory prices, while improving service

quality. Under the Mobile Device Act, consumers may not be discriminated in terms of subsidies based on their age, place of residence or monthly subscription plan when using their existing mobile phones, buying a new phone or switching their mobile carriers. Furthermore, everyone, regardless of their status, is entitled to receive either a handset subsidy for the purchase of mobile phone models that were launched within the last 15 months, or a tariff discount (with the current discount rate set at 20%, effective as of April 24, 2015). The maximum amount of handset subsidy that telecommunications operators and handset manufacturers may offer is determined by Korean telecommunication regulators (such limit to be determined between ₩250,000 and ₩350,000, and may be adjusted every six months, with the current limit set at ₩330,000, effective as of April 8, 2015). Telecommunications operators are also required to publicly announce the amount of handset subsidy that they offer, which may not be readjusted within one week after such announcement. In addition, telecommunications operators are prohibited from using misleading or exaggerated advertisements, such as advertisements that mobile phones are free without adequately explaining that it is preconditioned on signing up for high-priced monthly subscription plans.

The Government also sets the policies regarding the use of radio frequencies and allocates the spectrum of radio frequencies used for wireless telecommunications. 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 IPTV services in November 2008. IPTV is a service which combines video-on-demand services with real-time high definition broadcasting via broadband networks. The MSIP and the KCC have the authority to regulate IPTV services. Under the Internet Multimedia Broadcasting Business Act, anyone intending to engage in the IPTV services business must first obtain a license from the MSIP. Moreover, anyone intending to provide contents focused on news or contents that generally combine news, culture entertainment, and any other similar contents with IPTV providers, must obtain approval from the KCC. Furthermore, anyone intending to provide contents relating to the introduction of consumer products and other similar marketing content with IPTV providers must obtain additional approval from the MSIP. 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 IPTV services. KT Skylife is also subject to regulation by the MSIP and the KCC pursuant to the Korea Broadcasting Act. In March 2015, amendments to the Internet Multimedia Broadcasting Business Act were passed at a plenary session of the National Assembly, which will become effective three months after it is promulgated, unless the President of Korea vetoes the amendments. Under such amendments, which will be in effect until June 2018, a single broadcasting operator may not have more than one-third of the market share of all paid broadcasting subscribers in Korea. As these amendments and the regulations thereunder have not yet become effective, their effects are currently uncertain.

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

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

The Monopoly Regulation and Fair Trade Act provides for various regulations and restrictions on large business groups enforced by the Korea Fair Trade Commission. The Korea Fair Trade Commission 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 debt guarantees for other domestic member companies of the same group and cross-shareholdings among domestic member companies of the same group. Additionally, we are subject to a prohibition, in effect since July 25, 2014, against circular shareholding among any three or more entities within our business 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.

The reported investigations of and any adverse publicity associated with Mr. Suk-Chae Lee, our former Chief Executive Officer, and our other former executive officers or directors could have a material adverse effect on our business, reputation and stock price.

On November 12, 2013, Mr. Suk-Chae Lee resigned from his position as the president and chief executive officer of KT Corporation following the investigation by prosecutors for alleged embezzlement and breach of fiduciary duty. A warrant for Mr. Lee's arrest and detainment was submitted for approval to the Seoul

Central District Court in January 2014, but was denied due to lack of ascertainable evidence for his arrest. In April 2014, the Seoul Central District prosecutor's office charged Mr. Lee with embezzlement and breach of fiduciary duty, and also charged Mr. Il Yung Kim, our former non-independent director and former president of the KT Corporate Center, as a co-conspirator in the breach of fiduciary duty by Mr. Lee, and Mr. Yu-Yeol Seo, our former president of Home Business Group, as a co-conspirator in Mr. Lee's embezzlement. The trials against these former employees are still ongoing, and we cannot be certain at this time what the outcome will be. However, there can be no assurance that any further developments in the trials will not adversely affect our business or cause our stock price to decline.

The reported investigation of and any adverse publicity associated with one of our subsidiaries could have a material adverse effect on our business, reputation and stock price.

An employee of KT ENS and several companies, some of which are KT ENS's subcontractors, allegedly worked together to forge documents, including a forged proof of accounts receivable, to incur borrowings, of which ₩290 billion remains unpaid, from 16 Korean banks since 2008 in over 460 transactions, which were allegedly secured by the forged accounts receivable and endorsed by KT ENS. KT ENS's management neither had knowledge of nor approved such transactions. On February 11, 2014, police raided the offices of the subcontractors in connection with their investigation of the loans. Upon discovery of the incident, KT ENS immediately suspended the employee in question without pay, pending the results of the investigations for any further disciplinary actions. The employee and several other persons involved in the incident were sentenced to prison terms by the Seoul Central District Court in August 2014. The appeals regarding the sentences are currently ongoing.

In March 2014, KT ENS filed for court receivership with the Seoul Central District Court, based on its inability to pay approximately ₩49 billion in commercial paper that became due after early redemption rights were exercised. The commercial paper had been issued in connection with construction of a solar power plant by a contractor of the project and guaranteed by KT ENS. KT ENS faced difficulties in preventing such exercise of redemption rights following the above incident, and we declined to provide additional financial support to KT ENS to repay the redeemed commercial paper. In August 2014, the Seoul Central District Court approved KT ENS's restructuring plan, and determined that KT ENS is only responsible for 15% of the borrowings which remain unpaid, or approximately ₩46 billion. Pursuant to the plan, KT ENS is expected to repay all of its currently outstanding obligations. The banks have appealed the decision of the Seoul Central District Court, and the trial over the appeal is currently ongoing. While KT ENS's restructuring is unlikely to have a material impact on our results of operations or financial condition on a consolidated basis, as KT ENS was not a consolidated subsidiary for 2014 due to its filing for court receivership, and our interest in KT ENS was classified as available-for-sale securities, any future legal proceedings against KT ENS and/or us may lead to significant losses. Such losses, as well as any adverse publicity associated with the incident, could have a material adverse effect on our business, reputation and stock price.

The data breach incidents involving us in recent years have resulted in government investigations and private litigation, and if our efforts to protect the personal information of our subscribers are unsuccessful, future issues may result in further government enforcement actions and private litigation and may significantly impact our results of operation and reputation.

The nature of our business involves the receipt and storage of personal information of our subscribers. The uninterrupted operation of our information systems and confidentiality of the customer information that resides in such systems are critical to our successful operations. As such, we have a program in place to detect and respond to data security incidents. However, even though we may take all steps we believe are necessary to protect personal information, hardware, software or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to circumvent our security measures to gain access to our systems or facilities through fraud, trickery or other forms of deceiving our employees, contractors and temporary staff. In addition, because the techniques used to obtain unauthorized access or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures.

For example, in July 2012, the police arrested two individuals in connection with the alleged theft of personal information relating to approximately 8.7 million of our mobile phone subscribers. The individuals in question stole personal information through a series of hackings starting from February 2012 into our New Service and Technology Evolution Program ("N-STEP"), our mobile customer information system. Since the incident, approximately 29,800 of our mobile phone subscribers filed a total of 15 lawsuits against us in connection with the N-STEP hackings, alleging that we failed to protect their personal information, and are seeking total damages of approximately ₩15 billion. From August 2014 to January 2015, various district courts

have awarded damages of ₩100,000 per plaintiff for 11 of the cases involving a total of approximately 29,000 of the subscribers, resulting in damages of approximately ₩3 billion to us, while the remaining trials are currently ongoing at various district courts. We have appealed the district courts' decisions and the appeals are currently ongoing at the Seoul High Court.

Furthermore, in March 2014, the police arrested three individuals in connection with their alleged theft of personal information relating to approximately 9.8 million of our subscribers. The individuals in question stole the personal information of our subscribers through a series of hackings into our main homepage starting from February 2014. Since the incident, approximately 13,450 subscribers filed 18 lawsuits against us in connection with the information theft, seeking total damages of approximately ₩7 billion. The trials are currently ongoing at various district courts. In June 2014, we were fined ₩85 million by the KCC and were ordered to take corrective measures in connection with the most recent hacking incident. We filed an administrative appeal in August 2014 in connection with the KCC fine, and the appeal is currently ongoing at the Seoul Administrative Court.

We are unable to predict with any degree of certainty the outcome of these incidents at this time, including the scope of investigations or the maximum potential exposure. However, if we experience additional significant data security breaches or fail to detect and appropriately respond to significant data security breaches, we could be subject to additional government enforcement actions, regulatory sanctions and litigation in the future. In addition, our mobile phone subscribers could lose confidence in our ability to protect their information, which could cause them to discontinue using our services altogether. Furthermore, adverse final determinations, decisions or resolutions in such matters could encourage other parties to bring related claims and actions against us. Accordingly, the outcome of these incidents may materially and adversely impact our business, reputation, results of operations and financial condition.

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 ₩12,815 billion total principal amount of borrowings outstanding as of December 31, 2014, ₩2,859 billion was denominated in foreign currencies with a weighted average interest rate of 3.49%. The interest rates of such debt denominated in foreign currencies ranged from 0.59% (Japanese Yen 5 billion bond issued in 2013) to 6.50% (for US\$100 million fixed rate notes due 2034 issued under our medium-term note program). Upon identification and evaluation of our currency risk exposures, we, having considered various circumstances, enter into derivative financial instruments to try to manage some of such risks. Although the impact of exchange rate fluctuations has in the past been partially mitigated by such strategies, our results of operations have historically been affected by exchange rate fluctuations and there can be no assurance that such strategies will be sufficient to reduce or eliminate the adverse impact of such fluctuations in the future.

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 Korean economy is subject to many factors beyond our control, including developments in the global economy.

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. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has also fluctuated widely. 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, or KOSPI, declined from 1,897.1 on December 31, 2007 to 938.8 on October 24, 2008. While the KOSPI has recovered since 2008, closing at 2,142.6 on April 29, 2015, 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 selected countries and the resulting adverse effects on the global financial markets;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;
- increasing levels of household debt;
- 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;
- further decreases in the market prices of Korean real estate;
- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;
- declines in consumer confidence and a slowdown in consumer spending;
- 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);
- social and labor unrest;

- 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 Korean government budget deficit;
- financial problems or lack of progress in the restructuring of large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at certain Korean companies;
- the economic impact of any pending or future free trade agreements;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the occurrence of severe health epidemics in Korea or other parts of the world, including the recent Ebola outbreak;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy;
- political uncertainty or increasing strife among or within political parties in Korea;
- natural disasters that have a significant adverse economic or other impact on Korea or its major trading partners;
- hostilities or political or social tensions involving countries in the Middle East and North Africa, including Iraq, Syria and Yemen, as well as in Ukraine and Russia, and any material disruption in the supply of oil or significant decrease or increase in the price of oil; 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 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's third son, Kim Jong-eun, has assumed power as his father's designated successor, the long-term outcome of such leadership transition remains uncertain.

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. Some of the significant incidents in recent years include the following:

- In April 2013, North Korea blocked access to the inter-Korean industrial complex in its border city of Gaeseong to South Koreans, while the U.S. deployed nuclear-capable stealth bombers and destroyers to Korean air and sea space;
- In March 2013, North Korea stated that it had entered "a state of war" with Korea, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Korea-United States allies' military drills and additional sanctions imposed on North Korea for its missile and nuclear tests;
- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013;

- In December 2012, North Korea launched a satellite into orbit using a long-range rocket, despite concerns in the international community that such a launch would be in violation of the agreement with the United States as well as United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology; and
- In March 2010, a Korean naval vessel 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 denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and 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, which may further aggravate social and political pressure within North Korea. There can be no assurance that the level of tension affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on our business, results of operations and financial condition.

EXHIBIT 99-1 : CONSOLIDATED FINANCIAL STATEMENTS FOR THE
TWELVE MONTHS ENDED DECEMBER 31, 2014 AND 2013 AND INDEPENDENT
AUDITORS' REPORT

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of KT Corporation

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of KT Corporation and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Management's Annual Report on Internal Control over Financial Reporting in Item 15 of Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Samil PricewaterhouseCoopers

Seoul Korea
April 29, 2015

KT Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2013 and 2014

(in millions of Korean won)	Notes	2013	2014	(in thousands of U.S dollars) 2014 (Unaudited) (Note 2)
Assets				
Current assets				
Cash and cash equivalents	4, 5	₩ 2,070,869	₩ 1,888,663	\$ 1,718,216
Trade and other receivables, net	4, 6	5,239,569	4,811,050	4,376,865
Short-term loans, net	4, 7	838,724	710,368	646,259
Current finance lease receivables, net	4, 21	294,208	258,982	235,610
Other financial assets	4, 8	480,062	332,708	302,682
Current income tax assets		35,273	3,566	3,244
Inventories, net	9	673,618	418,883	381,080
Other current assets	10	339,596	349,615	318,064
Total current assets		9,971,919	8,773,835	7,982,020
Non-current assets				
Trade and other receivables, net	4, 6	813,471	848,863	772,255
Long-term loans, net	4, 7	509,873	584,914	532,127
Non-current finance lease receivables, net	4, 21	415,729	325,431	296,062
Other financial assets	4, 8	672,645	704,760	641,157
Property and equipment, net	11	16,386,964	16,468,196	14,981,983
Investment property, net	12	1,105,495	1,059,630	964,001
Intangible assets, net	13	3,827,393	3,544,033	3,224,193
Investments in jointly controlled entities and associates	14	363,903	338,780	308,206
Deferred income tax assets	29	706,977	1,078,792	981,434
Other non-current assets	10	75,748	72,041	65,541
Total non-current assets		24,878,198	25,025,440	22,766,959
Total assets		₩34,850,117	₩33,799,275	\$30,748,979

KT Corporation and Subsidiaries
Consolidated Statements of Financial Position (continued)
December 31, 2013 and 2014

(in millions of Korean won)	Notes	2013	2014	(in thousands of U.S dollars) 2014 (Unaudited) (Note 2)
Liabilities and Equity				
Current liabilities				
Trade and other payables	4, 15	₩ 7,413,823	₩ 6,408,111	\$ 5,829,795
Current finance lease liabilities, net	4	19,487	20,155	18,336
Borrowings	4, 16	3,020,706	2,955,644	2,688,905
Other financial liabilities	4, 8	63,820	23,717	21,577
Current income tax liabilities		99,848	45,799	41,666
Provisions	17	114,755	111,439	101,382
Deferred revenue		143,601	143,530	130,577
Other current liabilities	10	348,076	278,752	253,595
Total current liabilities		11,224,116	9,987,147	9,085,833
Non-current liabilities				
Trade and other payables	4, 15	1,058,884	909,192	827,140
Non-current finance lease liabilities, net	4	48,723	34,852	31,707
Borrowings	4, 16	8,463,187	9,859,741	8,969,924
Other financial liabilities	4, 8	178,812	190,525	173,331
Defined benefit liabilities, net	18	586,083	593,838	540,246
Provisions	17	133,561	106,430	96,825
Deferred revenue		147,837	147,439	134,133
Deferred income tax liabilities	29	169,498	143,964	130,972
Other non-current liabilities	10	2,000	38,590	35,107
Total non-current liabilities		10,788,585	12,024,571	10,939,385
Total liabilities		22,012,701	22,011,718	20,025,218
Equity attributable to owners of the Parent Company				
Capital stock	22	1,564,499	1,564,499	1,423,307
Share premium		1,440,258	1,440,258	1,310,278
Retained earnings	23	10,019,389	8,568,399	7,795,123
Accumulated other comprehensive income	24	24,538	25,790	23,463
Other components of equity	24	(1,320,943)	(1,260,709)	(1,146,933)
		11,727,741	10,338,237	9,405,238
Non-controlling interest		1,109,675	1,449,320	1,318,523
Total equity		12,837,416	11,787,557	10,723,761
Total liabilities and equity		₩34,850,117	₩33,799,275	\$30,748,979

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

KT Corporation and Subsidiaries
Consolidated Statements of Operations
Years ended December 31, 2012, 2013 and 2014

(in millions of Korean won, except per share amounts)	Notes	2012	2013	2014	(in thousands of U.S dollars) 2014 (Unaudited) (Note 2)
Continuing Operations					
Operating revenue	26	₩24,643,772	₩24,057,881	₩23,727,378	\$21,586,043
Revenue		23,856,375	23,728,673	23,469,287	21,351,244
Others		787,397	329,208	258,091	234,799
Operating expenses	27	22,963,673	23,734,497	24,389,781	22,188,665
Operating profit		1,680,099	323,384	(662,403)	(602,622)
Finance income	28	498,657	279,349	254,900	231,896
Finance costs	28	(781,993)	(647,500)	(818,443)	(744,581)
Income from jointly controlled entities and associates	14	18,079	6,601	18,198	16,556
Profit(loss) from continuing operations before income tax		1,414,842	(38,166)	(1,207,748)	(1,098,751)
Income tax expense (income)	29	277,869	49,579	(266,335)	(242,299)
Profit(loss) for the year from the continuing operations		1,136,973	(87,745)	(941,413)	(856,452)
Discontinued Operations					
Loss from discontinued operations	40	(31,534)	—	—	—
Profit(loss) for the year		₩ 1,105,439	₩ (87,745)	₩ (941,413)	\$ (856,452)
Profit(loss) for the year attributable to:					
Equity holders of the Parent Company		₩ 1,046,127	₩ (189,931)	₩ (1,030,240)	\$ (937,263)
Profit(loss) from continuing operations		1,075,694	(189,931)	(1,030,240)	(937,263)
Loss from discontinued operations		(29,567)	—	—	—
Non-controlling interest		₩ 59,312	₩ 102,186	₩ 88,827	\$ 80,811
Profit from continuing operations		61,279	102,186	88,827	80,811
Loss from discontinued operations		(1,967)	—	—	—
Earnings(loss) per share attributable to the equity holders of the Parent Company during the year (in won):					
Basic earnings(loss) per share	30	₩ 4,296	₩ (779)	₩ (4,215)	\$ (4)
From continuing operations		4,417	(779)	(4,215)	(4)
From discontinued operations		(121)	—	—	—
Diluted earnings(loss) per share	30	₩ 4,296	₩ (782)	₩ (4,215)	\$ (4)
From continuing operations		4,417	(782)	(4,215)	(4)
From discontinued operations		(121)	—	—	—

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, 2012, 2013 and 2014

(in millions of Korean won)	Notes	2012	2013	2014	(in thousands of U.S dollars) 2014
					(Unaudited) (Note 2)
Profit(loss) for the year		₩1,105,439	₩ (87,745)	₩ (941,413)	\$ (856,452)
Other comprehensive income					
Items not reclassifiable subsequently to profit or loss:					
Remeasurements of the net defined benefit liability	18	(130,492)	56,583	(236,637)	(215,281)
Shares of remeasurement loss from jointly controlled entities and associates		(1,131)	(455)	(394)	(358)
Items reclassifiable subsequently to profit or loss:					
Changes in value of available-for-sale financial assets	4, 8	23,952	49,778	39,336	35,786
Other comprehensive income(loss) from available-for sale financial assets reclassified to income(loss)		(4,865)	6,554	(17,173)	(15,623)
Net gains(losses) on cashflow hedges	4, 8	(129,290)	(72,303)	16,990	15,457
Other comprehensive income(loss) from cashflow hedges reclassified to income(loss)		154,867	67,607	(44,795)	(40,753)
Shares of other comprehensive income from jointly controlled entities and associates		(8,730)	2,896	3,902	3,550
Currency translation differences		(6,645)	(2,053)	3,526	3,208
Other comprehensive income after income tax for the year		(102,334)	108,607	(235,245)	(214,014)
Total comprehensive income for the year		₩1,003,105	₩ 20,862	₩(1,176,658)	\$(1,070,466)
Comprehensive income for the year attributable to:					
Equity holders of the Parent Company		937,542	(109,539)	(1,252,456)	(1,139,424)
Non-controlling interest		65,563	130,401	75,798	68,958

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

KT Corporation and Subsidiaries

Attributable to equity holders of the Parent Company

KT Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholder's Equity (Continued)
Years ended December 31, 2012, 2013 and 2014

(in millions of Korean won)	Notes	Attributable to equity holders of the Parent Company					Non-controlling interest	Total equity
		Capital stock	Share premium	Retained earnings	Accumulated Other Comprehensive income (loss)	Other Components of equity		
Balance at January 1, 2013 . . .		₩1,564,499	₩1,440,258	₩10,646,383	₩ 1,325	₩(1,343,286)	₩ 908,796	₩13,217,975
Comprehensive income								
Profit(loss) for the year		—	—	(189,931)	—	—	102,186	(87,745)
Changes in value of available-for-sale financial assets	4, 8	—	—	—	32,098	—	24,234	56,332
Remeasurements of the net defined benefit liability	18	—	—	57,641	—	—	(1,058)	56,583
Valuation gains(losses) on cashflow hedge	4, 8	—	—	—	(4,711)	—	15	(4,696)
Shares of other comprehensive income of jointly controlled entities and associates		—	—	—	2,570	—	326	2,896
Shares of remeasurement gain(loss) from jointly controlled entities and associates		—	—	(463)	—	—	7	(456)
Currency translation differences		—	—	—	(6,744)	—	4,691	(2,053)
Transactions with equity holders								
Dividends		—	—	(487,445)	—	—	(23,830)	(511,275)
Appropriations of loss on disposal of treasury stock		—	—	(6,796)	—	6,796	—	—
Changes in consolidation scope		—	—	—	—	—	9,452	9,452
Change in ownership interest in subsidiaries		—	—	—	—	14,150	85,971	100,121
Others		—	—	—	—	1,397	(1,115)	282
Balance at December 31, 2013		₩1,564,499	₩1,440,258	₩10,019,389	₩24,538	₩(1,320,943)	₩1,109,675	₩12,837,416

Years ended December 31, 2012, 2013 and 2014

KT Corporation and Subsidiaries

Attributable to equity holders of the Parent Company

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, 2012, 2013 and 2014

(in millions of Korean won)	Notes	2012	2013	2014	(in thousands of U.S dollars)
					2014 (Unaudited) (Note 2)
Cash flows from operating activities					
Cash generated from operations	32	₩ 6,439,692	₩ 4,677,260	₩ 2,379,311	\$ 2,164,584
Interest paid		(561,378)	(546,802)	(604,012)	(549,501)
Interest received		208,640	194,065	192,563	175,185
Dividends received		17,742	24,641	32,106	29,209
Income tax paid		(379,211)	(238,091)	(83,555)	(76,014)
Net cash generated from operating activities		5,725,485	4,111,073	1,916,413	1,743,463
Cash flows from investing activities					
Collection of loans		106,896	70,451	37,589	34,197
Origination of loans		(130,425)	(31,279)	(82,258)	(74,834)
Disposal of available-for-sale financial assets		113,068	78,811	77,365	70,383
Acquisition of available-for-sale financial assets		(86,622)	(127,052)	(78,095)	(71,047)
Disposal of investments in jointly controlled entities and associates		21,818	22,455	22,251	20,243
Acquisition of investments in jointly controlled entities and associates		(59,464)	(16,338)	(18,396)	(16,736)
Disposal of current and non-current financial instruments		362,481	319,465	630,216	573,341
Acquisition of current and non-current financial instruments		(511,914)	(588,893)	(427,585)	(388,997)
Disposal of property, equipment and investment property		618,786	100,469	77,644	70,637
Acquisition of property and equipment and investment property		(3,760,255)	(3,088,185)	(2,852,869)	(2,595,405)
Disposal of intangible assets		7,061	18,336	9,438	8,586
Acquisition of intangible assets		(526,878)	(549,967)	(578,377)	(526,180)
Increase in cash due to exclusion from consolidation scope		25,857	7,498	6,228	5,666
Cash inflow(outflow) from changes in scope of consolidation		(31,588)	1,646	5,891	5,359
Net cash used in investing activities		(3,851,179)	(3,782,583)	(3,170,958)	(2,884,787)
Cash flows from financing activities					
Proceeds from borrowings and bonds		4,258,995	6,199,601	10,037,067	9,131,247
Repayments of borrowings and bonds		(4,590,608)	(5,956,340)	(8,757,284)	(7,966,961)
Settlement of derivative assets and liabilities, net		39,001	(67,413)	(66,484)	(60,486)
Disposal of treasury stock		11,369	—	34,053	30,980
Cash inflow from consolidated capital transaction		7,232	34,581	99,211	90,257
Cash outflow from consolidated capital transaction		(315,356)	(4,107)	—	—
Dividends paid to shareholders		(498,057)	(511,275)	(222,773)	(202,668)
Decrease in finance leases liabilities		(190,380)	(6,841)	(52,099)	(47,397)
Net cash provided by(used in) financing activities		(1,277,804)	(311,794)	1,071,691	974,972
Effect of exchange rate change on cash and cash equivalents		(1,038)	(3,440)	648	590
Net increase in cash and cash equivalents		595,464	13,256	(182,206)	(165,762)
Cash and cash equivalents					
Beginning of the year	5	1,462,149	2,057,613	2,070,869	1,883,978
End of the year	5	₩ 2,057,613	₩ 2,070,869	₩ 1,888,663	\$ 1,718,216

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

KT Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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1. General Information

The consolidated financial statements include the accounts of KT Corporation, which is the controlling company as defined under IFRS 10, *Consolidated Financial Statements*, and its 65 controlled subsidiaries as described in Note 1.2 (collectively referred to as the “Company”).

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 City, Gyeonggi Province, Republic of Korea, and the address of its registered head office is 90, Buljeong-ro, Bundang-gu, Seongnam City, Gyeonggi Province.

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

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

On May 29, 1999, the Controlling Company issued 24,282,195 additional shares and issued American Depositary Shares (ADS), representing new shares and government-owned shares, at the New York Stock Exchange and the London Stock Exchange. On July 2, 2001, the 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 the entire government-owned shares in accordance with the Korean government’s privatization plan. As of the end of the reporting period, the Korean government does not own any share in the Controlling Company.

Consolidated Subsidiaries

The consolidated subsidiaries as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)			Controlling percentage ownership ¹ (%)		Financial year end
Subsidiary	Type of Business	Location	2013	2014	
KT Powertel Co., Ltd. ²	Trunk radio system business	Domestic	44.8	44.8	December 31
KT Linkus Co., Ltd.	Public telephone maintenance	Domestic	93.8	93.8	December 31
KT Submarine Co., Ltd. ²	Submarine cable construction and maintenance	Domestic	36.9	36.9	December 31
KT Telecop Co., Ltd.	Security service	Domestic	86.8	86.8	December 31
KT Hitel Co., Ltd.	Data communication	Domestic	63.7	63.7	December 31
KT Commerce Inc.	B2C, B2B service	Domestic	100.0	100.0	December 31
KT Capital Co., Ltd.	Financing service	Domestic	100.0	100.0	December 31
KT New Business Fund No.1	Investment fund	Domestic	100.0	100.0	December 31
Gyeonggi-KT Green Growth Fund	Venture investment of Green Growth Business	Domestic	56.5	56.5	December 31

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(in millions of Korean won)			Controlling percentage ownership ¹ (%)		Financial year end
Subsidiary	Type of Business	Location	2013	2014	
KTC Media Contents Fund 2	New technology investment fund	Domestic	85.7	85.7	December 31
KT Strategic Investment Fund No.1	Investment fund	Domestic	100.0	100.0	December 31
KT Strategic Investment Fund No.2	Investment fund	Domestic	100.0	100.0	December 31
BC Card Co., Ltd.	Credit card business	Domestic	69.5	69.5	December 31
VP Inc.	Payment security service for credit card and etc.	Domestic	50.9	50.9	December 31
H&C Network	Call centre for financial sectors	Domestic	100.0	100.0	December 31
BC Card China Co., Ltd.	Research and development of calculation system and software	China	100.0	100.0	December 31
INITECH Co., Ltd.	Internet banking ASP and security solutions	Domestic	57.0	57.0	December 31
Smartro Co., Ltd.	VAN (Value Added Network) business	Domestic	81.1	81.1	December 31
Sofnics, Inc.	Software development and sales	Domestic	80.6	80.6	December 31
KTDS Co., Ltd.	System integration and maintenance	Domestic	95.3	95.3	December 31
KT M Hows Co., Ltd.	Mobile marketing	Domestic	51.0	51.0	December 31
KT M&S Co., Ltd.	PCS distribution	Domestic	100.0	100.0	December 31
KT Music Corporation ⁴	Online music production and distribution	Domestic	57.8	49.9	December 31
KT Skylife Co., Ltd. ²	Satellite broadcasting business	Domestic	50.1	49.9	December 31
SkylifeTV co., Ltd. (formerly Korea HD Broadcasting Corp.)	TV contents provider	Domestic	92.6	92.6	December 31
KT Estate Inc.	Residential building development and supply	Domestic	100.0	100.0	December 31
KT AMC Co., Ltd.	Asset management and consulting services	Domestic	100.0	100.0	December 31
KT NEXR CO., LTD. (formerly NEXR Co., Ltd.)	Cloud system implementation	Domestic	99.8	99.8	December 31
KT SB Data service	Data centre development and related service	Domestic	51.0	51.0	December 31
CENTIOS Co., Ltd.	U-City solution business	Domestic	82.8	82.8	December 31
Centios Philippines, Inc.	Smart space business	Philippines	100.0	100.0	December 31
Enswers Inc. ³	Video-clip searching service	Domestic	45.2	45.2	December 31
Ustream Korea Inc.	Live video-streaming service business	Domestic	51.0	51.0	December 31
Incheonucity Co., Ltd.	U-City development and operation agent	Domestic	51.4	51.4	December 31
KT Innoedu Co., Ltd. ³	E-learning business	Domestic	48.4	48.4	December 31
KT Rental	Car rental and general rental business	Domestic	58.0	58.0	December 31
KT Auto Lease Corporation	Car rental business	Domestic	100.0	100.0	December 31
Kumho Rent-a-car Co., Ltd.	Car rental business	Vietnam	100.0	100.0	December 31
KT Rental Auto Care Corporation	Car rental business	Domestic	100.0	100.0	December 31
KT Sat Co., Ltd.	Satellite communication business	Domestic	100.0	100.0	December 31
KT Media Hub Co. Ltd.	Media contents development and distribution	Domestic	100.0	100.0	December 31
Best Partners Co., Ltd.	Outsourcing service for HR, administration, and accounting service	Domestic	100.0	100.0	December 31
Nasmedia, Inc. ³	Online advertisement	Domestic	45.4	45.4	December 31
T-ON Telecom	Trunk radio system business and data communication	Domestic	100.0	100.0	December 31
KT Sports	Management of sports group	Domestic	100.0	100.0	December 31
KT Music Contents Fund No.1	Music contents investment business	Domestic	80.0	80.0	December 31
Consus-Changwon Private REIT	Investment in real estate	Domestic	93.6	93.6	December 31
KT-Michigan Global Content Fund	Content investment business	Domestic	81.3	81.3	December 31
Autopion Co., Ltd.	Service for information and communication	Domestic	100.0	100.0	December 31

KT Corporation and Subsidiaries
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(in millions of Korean won)			Controlling percentage ownership ¹ (%)		Financial year end
Subsidiary	Type of Business	Location	2013	2014	
GREEN CAR (formerly GREEN POINT)	Car sharing business	Domestic	52.3	52.3	December 31
K-REALTY CR-REIT 7	Investment in real estate	Domestic	—	100.0	December 31
ktcs Corporation ²	Database and online information provider	Domestic	—	30.3	December 31
ktis Corporation ²	Database and online information provider	Domestic	—	29.3	December 31
olleh Rwanda Networks Ltd.	Network installation and management	Rwanda	51.0	51.0	December 31
Africa Olleh Services Ltd.	System integration and maintenance	Rwanda	—	51.0	December 31
KT Belgium	Foreign investment business	Belgium	100.0	100.0	December 31
KT ORS Belgium	Foreign investment business	Belgium	100.0	100.0	December 31
Korea Telecom Japan Co., Ltd.	Foreign telecommunication business	Japan	100.0	100.0	December 31
KBTO sp.zo.o.,	Electronic communication business	Poland	—	60.0	December 31
Korea Telecom China Co., Ltd.	Foreign telecommunication business	China	100.0	100.0	December 31
KT Dutch B.V	Super iMax and East Telecom management	Netherlands	100.0	100.0	December 31
Super iMax LLC	Wireless high speed internet business	Uzbekistan	100.0	100.0	December 31
East Telecom LLC	Fixed line telecommunication business	Uzbekistan	91.0	91.0	December 31
Korea Telecom America, Inc.	Foreign telecommunication business	USA	100.0	100.0	December 31
PT. KT Indonesia	Foreign telecommunication business	Indonesia	99.0	99.0	December 31

- Sum of the ownership interests owned by the Controlling Company and subsidiaries.
- Even though the Company has less than 50% ownership in these subsidiaries, these entities are consolidated as the Company can exercise the majority voting rights in its decision-making process at all times considering historical voting pattern at the shareholders' meetings.
- Even though the Company has less than 50% ownership in these subsidiaries, these entities are consolidated as the Company holds the majority of voting right based on an agreement with other investors.
- Even though the Company has less than 50% ownership in this subsidiary, this entity is consolidated as the Company holds the potential voting rights by a stock purchase agreement with other investors.

Changes in scope of consolidation in 2014 are as follows:

Changes	Location	Subsidiaries	Reason
Included	Domestic	ktcs Corporation	Acquisition of ownership interest
		ktis Corporation	Acquisition of ownership interest
		K-REALTY CR-REIT 6	Newly incorporated
		K-REALTY CR-REIT 7	Newly incorporated
		Africa Olleh Services Ltd.	Newly incorporated
Excluded	Poland	KBTO sp.zo.o.,	Acquisition of ownership interest
	Domestic	KT ENGCORE Co., Ltd. (formerly KT ENS corporation)	Under receivership
		K-REALTY CR-REIT 6	Decrease in percentage of ownership due to unequal stock issuance
		Sidus FNH Corporation	Disposal of ownership interest
		KT OIC Korea Co., Ltd.	Disposal of ownership interest
		KT Cloudware Corporation	Merged
		InitechSmartro Holdings Co., Ltd.	Merged
	USA	K-REALTY CR-REIT 4	Liquidated
		K-REALTY CR-REIT 5	Liquidated
		Soompi USA. LLC	Liquidated

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A summary of financial data of the major consolidated subsidiaries as of and for the years ended December 31, 2012, 2013 and 2014, are as follows:

(in millions of Korean won)	2012			
	Total assets	Total liabilities	Operating revenue	Net income (loss)
KT Powertel Co., Ltd.	₩ 175,862	₩ 55,613	₩ 124,936	₩ 12,527
KT ENGCORE Co., Ltd. (formerly kt ens Corporation) ...	258,430	201,076	500,555	4,644
KT Linkus Co., Ltd.	68,260	62,686	81,564	2,302
KT Submarine Co., Ltd.	109,787	25,037	68,900	7,953
KT Telecop Co., Ltd.	180,870	130,719	296,180	2,642
KT Hitel Co., Ltd. ¹	249,231	79,511	443,431	(8,902)
KT Tech, Inc.	13,190	42,562	175,861	2,731
KT Capital Co., Ltd. ¹	5,058,883	4,519,485	3,348,952	98,353
H&C Network ¹	244,031	119,086	199,143	8,713
Sidus FNH Corporation	9,534	1,921	2,066	209
Nasmedia, Inc.	90,675	47,053	23,463	6,445
Sofnics, Inc.	1,564	207	782	(279)
KTDS Co., Ltd.	171,546	115,994	570,703	17,155
KT M Hows Co., Ltd.	26,498	16,511	28,874	1,933
KT M&S Co., Ltd.	257,809	224,430	1,009,331	(78,241)
KT Music Corporation ¹	73,050	33,086	31,393	(2,124)
KT Innotz Inc.	3,012	344	2,609	(1,411)
KT Skylife Co., Ltd. ¹	641,564	292,649	574,829	55,546
KT Estate Inc. ¹	1,460,511	145,885	24,861	3,124
NEXR Co., Ltd.	2,305	1,964	2,651	(1,787)
KT SB Dataservice	32,733	265	439	(4,383)
KT Cloudware Corporation	21,345	2,321	3,878	(5,397)
Centios Co., Ltd. ¹	32,848	9,259	171	(3,163)
Enswers Inc. ¹	13,966	18,330	4,896	(3,010)
KT OIC Korea Co., Ltd.	3,968	406	325	(1,569)
Ustream Korea Inc.	3,171	858	321	(2,683)
KT Innoedu Co., Ltd. ²	10,561	5,218	10,522	308
KT Rental ^{1,2}	1,694,021	1,426,484	368,228	11,072
KT Media Hub Co., Ltd. ²	95,703	13,679	14,381	2,237
KT Sat Co., Ltd. ²	417,886	16,269	10,310	1,739
Best Partners Co., Ltd. ²	1,526	79	15	(57)
Korea Telecom Japan Co., Ltd.	8,284	3,955	14,458	(324)
Korea Telecom China Co., Ltd.	1,895	38	1,863	(675)
KT Dutch B.V. ¹	47,277	14,748	12,086	(9,837)
Korea Telecom America, Inc.	5,850	1,904	13,392	(31)
PT. KT Indonesia	38	—	—	(6)

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	2013			
(in millions of Korean won)	Total assets	Total liabilities	Operating revenue	Net income (loss)
KT Powertel Co., Ltd.	₩ 167,131	₩ 44,012	₩ 112,905	₩ 5,453
KT ENGSCORE Co., Ltd. (formerly KT ENS corporation)	291,636	225,285	587,438	11,133
KT Linkus Co., Ltd.	70,562	62,993	103,003	1,920
KT Submarine Co., Ltd.	115,781	27,449	83,006	6,146
KT Telecop Co., Ltd.	192,126	138,357	239,166	3,840
KT Hitel Co., Ltd. ¹	293,665	102,644	582,925	3,551
KT Capital Co., Ltd. ¹	5,462,028	4,759,100	3,317,337	129,354
H&C Network ¹	257,390	110,126	225,402	18,870
Sidus FNH Corporation	9,481	2,549	5,729	(387)
Nasmedia, Inc.	97,140	40,943	24,769	5,615
Sofnics, Inc.	1,431	267	881	(178)
KTDS Co., Ltd.	189,983	125,172	574,792	18,245
KT M Hows Co., Ltd.	25,845	14,341	48,047	1,739
KT M&S Co., Ltd.	281,011	223,089	884,125	22,614
KT Music Corporation ¹	82,997	48,289	51,350	(5,088)
KT Skylife Co., Ltd. ¹	684,651	283,068	630,469	72,724
KT Estate Inc. ¹	1,434,685	109,634	253,367	22,692
NEXR Co., Ltd.	2,814	4,451	4,540	(1,965)
KTSB Dataservice	28,001	321	1,447	(4,802)
KT Cloudware Corporation	15,995	1,128	4,682	(2,913)
Centios Co., Ltd. ¹	27,873	9,793	1,060	(5,097)
Enswers Inc. ¹	8,722	20,148	5,922	(4,990)
KT OIC Korea Co., Ltd.	3,626	512	2,039	(448)
Ustream Korea Inc.	2,677	1,050	2,831	(2,363)
KT Innoedu Co., Ltd.	12,618	8,450	21,578	(1,020)
KT Rental ¹	2,188,271	1,896,259	886,959	32,400
KT Media Hub Co., Ltd.	184,702	81,578	304,713	21,146
KT Sat Co., Ltd.	492,965	35,237	169,463	56,859
Best Partners Co., Ltd.	882	116	265	(681)
T-ON Telecom ²	3,347	2,298	1,152	(2,358)
KT Sports ²	15,672	6,750	21,794	(970)
KT Music Contents Fund No.1 ²	10,529	185	72	(157)
KT-Michigan Global Content Fund ²	6,227	—	26	(173)
Autopion co., Ltd. ²	5,314	3,314	—	—
Korea Telecom Japan Co., Ltd.	17,752	14,204	22,154	30
Korea Telecom China Co., Ltd.	1,178	367	1,338	(1,108)
KT Dutch B.V. ¹	46,347	14,684	22,077	(4,131)
Korea Telecom America, Inc.	5,773	1,825	13,881	32
PT. KT Indonesia	30	—	—	1
olleh Rwanda Networks Ltd. ²	226,776	217,132	—	(943)
KT Belgium ²	38,033	—	—	(11)
KT ORS Belgium ²	95	—	—	—

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	2014			
(in millions of Korean won)	Total assets	Total liabilities	Operating revenue	Net income (loss)
KT Powertel Co., Ltd.	₩ 157,330	₩ 29,996	₩ 105,250	₩ 5,368
KT Linkus Co., Ltd.	70,718	64,043	106,642	1,076
KT Submarine Co., Ltd.	111,877	16,188	77,292	9,018
KT Telecop Co., Ltd.	305,988	161,188	258,692	(6,576)
KT Hitel Co., Ltd. ¹	226,994	31,429	494,455	12,205
KT Capital Co., Ltd. ¹	2,038,263	1,759,641	186,114	69,491
BC Card Co., Ltd. ¹	2,700,388	1,794,923	3,297,308	134,450
H&C Network ¹	223,896	69,537	217,256	8,506
Nasmedia, Inc.	97,502	34,933	29,865	7,956
Sofnics, Inc.	213	48	349	(1,029)
KTDS Co., Ltd. ¹	92,676	58,486	354,094	(11,394)
KT M Hows Co., Ltd.	22,846	17,446	23,683	(5,626)
KT M&S Co., Ltd.	281,787	221,227	885,456	6,391
KT Music Corporation	83,386	27,069	86,449	3,240
KT Skylife Co., Ltd. ¹	683,009	246,326	656,430	55,162
KT Estate Inc. ¹	1,496,815	169,788	247,256	11,212
KTSB Dataservice	25,094	1,384	2,457	(3,960)
Centios Co., Ltd. ¹	40,503	26,464	21,954	(4,012)
Enswers Inc.	7,260	23,244	4,644	(4,533)
Ustream Korea Inc.	635	246	1,818	(1,313)
KT Innoedu Co., Ltd.	8,761	11,913	21,010	(7,291)
KT Rental ¹	2,656,385	2,317,650	1,074,569	51,388
KT Media Hub Co., Ltd.	172,621	76,995	335,451	14,054
KT Sat Co., Ltd.	480,689	45,540	139,865	30,016
Best Partners Co., Ltd.	113	100	346	(753)
T-ON Telecom	2,543	1,903	469	(1,802)
KT Sports	15,753	8,220	42,320	(1,305)
KT Music Contents Fund No.1	10,573	304	230	(74)
KT-Michigan Global Content Fund	5,610	—	29	(617)
Autopion Co., Ltd.	5,791	3,194	9,892	662
ktcs Corporation ^{1,2}	303,574	155,603	234,852	4,704
ktis Corporation ²	215,741	68,046	83,850	(539)
Korea Telecom Japan Co., Ltd.	16,551	21,279	34,717	(22,769)
Korea Telecom China Co., Ltd.	1,011	213	1,532	(25)
KT Dutch B.V. ¹	42,951	10,332	26,148	30
Korea Telecom America, Inc.	5,627	1,295	6,318	211
PT. KT Indonesia	32	—	—	1
olleh Rwanda Networks Ltd.	201,130	105,095	3,809	(18,984)
KT Belgium	72,405	14	—	(192)
KT ORS Belgium	1,932	6	—	(82)
KBTO sp.zo.o., ²	3	33	—	(32)
Africa Olleh Services Ltd. ²	9,870	255	4,773	(1,772)

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

2 These entities were newly consolidated for the years ended December 31, 2012, 2013 and 2014. Only operating revenues and net income subsequent to the inclusion of consolidation scope are disclosed above.

2. Significant Accounting Policies

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

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Notes to Consolidated Financial Statements
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2.1 Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The preparation of the consolidated 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.

2.2 Changes in Accounting Policy and Disclosures

(1) New standards and amendments adopted by the Company

The Company newly applied the following enacted and amended standards for the annual period beginning on January 1, 2014.

—Amendment to IAS 32, Financial Instruments: Presentation

Amendment to IAS 32, Financial Instruments: *Presentation*, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. The adoption of this amendment does not have a material impact on the consolidated financial statements.

—Amendment to IAS 39, Financial Instruments: Recognition and Measurement

Amendment to IAS 39, Financial Instruments: *Recognition and Measurement*, allows the continuation of hedge accounting for a derivative that has been designated as a hedging instrument in a circumstance in which that derivative is novated to a central counterparty (CCP) as a consequence of laws or regulations. The adoption of this amendment does not have a material impact on the consolidated financial statements.

—Enactment of IFRIC interpretations 2121, Levies

IFRIC interpretations 2121, Levies, are applied to a liability to pay a levy imposed by a government in accordance with the legislation. The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation. The adoption of this enactment does not have a material impact on the consolidated financial statements.

—Amendment to IFRS 2, Share-based payment

IFRS 2, *Share-based payment*, clarifies the definition of ‘vesting conditions’ such as ‘performance condition’, ‘service condition’ and others. This amendment is applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The application of this amendment does not have a material impact on the consolidated financial statements.

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—*Amendment to IAS 36, Impairment of Assets*

Amendment to IAS 36, *Impairment of Assets*, removed certain disclosures of the recoverable amount of cash-generating units which had been included in this amendment by the issuance of IFRS 13.

Other standards, amendments and interpretations which are effective for the annual period beginning on January 1, 2014, do not have a material impact on the separate financial statements of the Company.

(2) New standards, amendments and interpretations not yet adopted

—*Enactment of IFRS 15, Revenue from Contracts with Customers*

IFRS 15 'Revenue from Contracts with Customers' requires that an entity recognizes revenue by sequentially judging the steps of 'Identify the contract(s) with a customer', 'Identify the performance obligations in the contract', 'Determine the transaction price', 'Allocate the transaction price to the performance obligations in the contract', 'Recognize revenue when (or as) the entity satisfies a performance obligation'. This standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is assessing the impact of application of this standard on its consolidated financial statements.

The Company is assessing the impact of application of new standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2014, and not early adopted by the Company.

2.3 Consolidation

The Company has prepared the consolidated financial statements in accordance with IFRS 10, *Consolidated Financial Statements*.

(1) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company loses control of the subsidiary.

The Company applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

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Goodwill is recognized as 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 acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Company's subsidiaries are eliminated. 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

In transactions with non-controlling interests, which do not result in loss of control, the Company recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

(3) Disposal of subsidiaries

If the Company loses control of a subsidiary, any investment continuously retained in the subsidiary is re-measured at its fair value at the date when control is lost and any resulting differences are recognized in profit or loss.

(4) Associates

Associates are all entities over which the Company has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Company recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

(5) Joint arrangement

A joint arrangement of which two or more parties have joint control is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 33). The chief operating decision-maker is responsible for making strategic decisions on resource allocation and performance assessment of the operating segments.

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2.5 Foreign Currency Translation

(1) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the each 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 profit or loss.

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

(3) Translation into presentation currency

Different functional currencies are translated into presentation currency using the following procedures.

- Assets and liabilities at the closing rate at the date of that statement of financial position
- Income and expenses at average rate for the period
- Equity at historical rate
- All resulting exchange differences are recognized in other comprehensive income

2.6 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.

2.7 Financial Assets

(1) Classification and measurement

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on trade date.

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A regular way purchase of financial assets shall be recognized as applicable, using trade date accounting. At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

(2) Impairment

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.

Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Company writes off financial assets when the assets are determined to be no longer recoverable.

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 reorganization;
- 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.

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(3) Derecognition

If the Company transfers a financial asset and the transfer does not result in derecognition because the Company has retained substantially all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the statement of financial position.

(4) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where 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 assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.8 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of income within 'operating income (expenses)' and 'finance income (expenses)' according to the nature of transactions.

If the Company uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of the financial instrument, there may be a difference between the transaction price and the amount determined using that valuation technique (Day 1 profit and loss). In these circumstances, the fair value of the financial instrument is recognized as the transaction price and the difference is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instrument is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss in the statement of income.

The Company applies cash flow hedge accounting to hedge the risks of foreign exchange and interest rates of the variable rate foreign currency bonds. 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 finance income (expenses) in the statement of income. Amounts of changes in fair value of effective hedging instruments accumulated in other comprehensive income are recognized as 'finance income (expenses)' for the periods when the corresponding transactions affect profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that is reported in other comprehensive income is recognized as 'finance income (expenses)'.

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.

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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 which is determined using the specific identification method.

2.10 Non-current Assets (or Disposal Group) Held-for-sale

Non-current assets (or disposal group) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

2.11 Property and Equipment

Property and equipment are stated at its cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values 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 depreciation method, residual values and useful lives of property and equipment are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

2.12 Investment Property

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. Investment property, except for land, is depreciated using the straight-line method over their useful lives from 10 to 40 years.

2.13 Intangible Assets

(1) Goodwill

Goodwill is measured as explained in Note 2.3 (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.

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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

Separately acquired Intangible assets except for goodwill are shown at historical cost. These assets have definite useful lives and are carried at historical cost less accumulated amortization. Assets with definite useful lives are amortized using the straight-line method according to the estimated useful lives presented below. 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.

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

	Estimated Useful Lives
Development costs	5 – 6 years
Goodwill	Unlimited useful life
Software	6 years
Industrial property rights	5 – 10 years
Frequency usage rights	5.75 – 15 years
Others ¹	2 – 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

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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

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

2.15 Government Grants

Government grants related to assets are recognized in profit or loss on a systematic and rational basis over the useful life of the asset by setting up the grant as deferred income, and government grants related to income are deferred and recognized in the statement of income as part of 'other non-operating income' for the period in which the related expenses for the purpose of the government grants are incurred.

2.16 Impairment of Non-Financial Assets

Goodwill or intangible assets with indefinite useful lives are tested annually for impairment. Depreciable assets are tested for impairment when there is any indication an asset may be impaired. 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 value in use. 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) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

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Preferred shares that provide for a mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares calculated using the effective interest method are recognized in the statement of income as 'finance costs', together with interest expenses recognized on other financial liabilities.

The Company's financial liabilities at fair value through profit or loss are financial instruments held for trading and designated as financial liabilities at fair value through profit or loss. Financial liabilities held for trading are financial liabilities that are incurred principally for the purpose of repurchasing them in the near term and derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives. Financial liabilities at fair value through profit or loss are structured financial liabilities containing embedded derivatives issued by the Company.

As it was unable to measure the embedded derivatives separately from its host contract, the Company designated the entire hybrid contract as at fair value through profit or loss. The financial liability that the Company designated as at fair value through profit or loss is a foreign convertible bond.

(2) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.18 Financial Guarantee Contracts

Financial guarantee contracts provided by the Company are 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 and recognized as 'other financial liabilities':

- The amount determined in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*; or
- The initial amount, less accumulated amortization recognized in accordance with IAS 18, *Revenue*.

2.19 Compound Financial Instruments

Compound financial instruments are convertible bonds that can be converted into equity instruments at the option of the holder. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially on the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

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2.20 Employee Benefits

(1) Post-employment benefits

The Company has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expenses when an employee has rendered service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans 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 and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

(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 at the earlier of the following dates: when the entity can no longer withdraw the offer of those benefits or when the entity recognizes costs for a restructuring.

2.21 Share-based payments

Equity-settled share-based payments granted to employees are estimated at the grant date fair value of equity instruments and recognized as employee benefit expenses over the vesting period. The number of equity instruments expected to vest is remeasured with consideration to non-market vesting conditions at the end of the reporting period, with any changes from the original measurement recognized in the profit for the year and equity.

2.22 Provisions

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

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2.23 Leases

(1) Lessee

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments on the opening date of the lease period.

(2) Lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

2.24 Capital Stock

Common stocks are classified as equity.

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.

2.25 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal activities of the Company. It is stated as net of value added taxes, returns, rebates and discounts, after elimination of intra-company transactions.

The Company recognizes revenue when the amount of revenue can be reliably measured; when 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 estimate 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.

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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

The Company sells a range of handsets. Revenue from the sale of goods is recognized when products are delivered to the purchaser.

(3) Interest income

Interest income is recognized using the effective interest method according to the time passed. 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 loans and 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 an 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.

(7) Customer loyalty program

The Company operates a customer loyalty program where customers accumulate points for purchases made which entitle them to discounts on future purchases. The reward points are recognized as a separately identifiable component of the initial sale transaction. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the reward points and the other components of the sale. The fair value of the reward points is measured by taking into account the proportion of the reward points that are not expected to be redeemed by customers. Revenue from the reward points is recognized when the points are redeemed and the reward points expire 12 months after the initial sale.

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2.26 Current and Deferred Income Tax

The tax expense for the period consists of current and deferred tax. Tax is recognized on the profit for the period 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 tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Management periodically evaluates tax policies that are applied in tax returns in which applicable tax regulation is subject to interpretation. The Company recognizes current income tax on the basis of the amount expected to be paid to the tax authorities.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise 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 tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred 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 to settle the balances on a net basis.

2.27 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 amortizations of the deferred loan origination fees on costs are offset and the net amounts are presented in the consolidated statement of financial position.

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2.28 Non-current Assets Held for Sale and Discontinued Operations

When a component of the Group 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 Group 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 (Note 40).

2.29 Dividend

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.

2.30 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2014 financial statements of the Company was approved by the directors on April 23, 2015.

2.31 US Dollar Convention Translation

The December 31, 2014 consolidated financial statements are expressed in Korean Won and have been translated in U.S. dollars at the rate of ₩1,099.2 to US\$1, the market average exchange rate announced by Seoul Money Brokerage Services, Ltd. and in effect on December 31, 2014, solely for the convenience of the reader. These translations should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

3. Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. 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 Impairment of Goodwill

The Company tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 13).

3.2 Income Taxes

The Company is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain.

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3.3 Fair Value of Derivatives and 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 judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 36).

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 Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (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 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 17, 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, Intangible Assets and Investment Property

Depreciation on the property and equipment, intangible assets and investment property excluding land, condominium memberships, golf club memberships, and broadcasting concession is calculated using the 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.

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4. Financial Instruments by category

Financial instruments by category as of December 31, 2013 and 2014, are as follows:

(In millions of Korean won)

		2013				
	Loans and receivables	Assets at fair value through the profit and loss	Derivatives used for hedge	Available-for-sale	Held-to-Maturity	Total
Financial assets						
Cash and cash equivalents	₩ 2,070,869	₩ —	₩ —	₩ —	₩ —	₩ 2,070,869
Trade and other receivables	6,053,040	—	—	—	—	6,053,040
Loans receivable	1,348,597	—	—	—	—	1,348,597
Finance lease receivables	709,937	—	—	—	—	709,937
Other financial assets	582,693	15,643	3,496	547,627	3,248	1,152,707
Total	₩10,765,136	₩15,643	₩3,496	₩547,627	₩3,248	₩11,335,150

(In millions of Korean won)

(In millions of Korean won)	2013				
	Liabilities at fair value through the profit and loss	Derivatives used for hedge	Financial liabilities at amortized cost	Other liabilities	Total
Financial liabilities					
Trade and other payables	₩ —	₩ —	₩ 8,472,707	₩ —	₩ 8,472,707
Finance lease liabilities	—	—	68,210	—	68,210
Borrowings	—	—	11,483,893	—	11,483,893
Other financial liabilities	2,956	150,612	73,080	15,984	242,632
Total	₩2,956	₩150,612	₩20,097,890	₩15,984	₩20,267,442

(In millions of Korean won)

		2014				
	Loans and receivables	Assets at fair value through the profit and loss	Derivatives used for hedge	Available-for-sale	Held-to-Maturity	Total
Financial assets						
Cash and cash equivalents	₩1,888,663	₩ —	₩ —	₩ —	₩ —	₩ 1,888,663
Trade and other receivables	5,659,913	—	—	—	—	5,659,913
Loans receivable	1,295,282	—	—	—	—	1,295,282
Finance lease receivables	584,413	—	—	—	—	584,413
Other financial assets	455,622	6,983	41,540	525,556	7,767	1,037,468
Total	₩9,883,893	₩6,983	₩41,540	₩525,556	₩7,767	₩10,465,739

(In millions of Korean won)

(In millions of Korean won)	2014				
Financial liabilities	Liabilities at fair value through the profit and loss	Derivatives used for hedge	Financial liabilities at amortized cost	Other liabilities	Total
Trade and other payables	₩ —	₩ —	₩ 7,317,303	₩ —	₩ 7,317,303
Finance lease liabilities	—	—	55,007	—	55,007
Borrowings	—	—	12,815,385	—	12,815,385
Other financial liabilities	3,980	122,012	82,816	5,434	214,242
Total	₩3,980	₩122,012	₩20,270,511	₩5,434	₩20,401,937

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Income or expense (gain or loss) by financial instruments category for the years ended December 31, 2012, 2013 and 2014 are as follows:

(In millions of Korean won)	2012	2013	2014
Loans and receivables			
Interest income ¹	₩ 387,254	₩ 279,047	₩ 237,771
gain(loss) on foreign currency transaction	(1,198)	23,509	(1,181)
gain(loss) on foreign currency translation	(3,208)	(5,245)	7,917
Loss on disposal	(15,809)	(7,534)	(16,464)
Bad debts expense	(150,389)	(189,665)	(231,934)
Assets at fair value through the profit and loss			
Gain(loss) on disposal	10	375	(587)
Loss on valuation	(80)	(5,427)	(794)
Derivatives used for hedging			
Gain(loss) on transaction	(4,023)	1,134	(34,653)
Gain on valuation	(49,729)	127	64,700
Other comprehensive income(loss) ²	(9,407)	(1,936)	28,928
Reclassified to profit or loss from other comprehensive income(loss) ^{2,3}	24,764	1,408	(49,524)
Available -for-sale			
Interest income ¹	142	345	45
Dividend income	6,370	20,841	15,007
Gain(loss) on disposal	7,991	2,339	(13,495)
Impairment loss	(3,401)	(5,053)	(70,022)
Other comprehensive income ²	23,952	49,778	39,336
Reclassified to profit or loss from other comprehensive income ²	(4,865)	6,554	(17,173)
Held-to-Maturity			
Interest income ¹	—	—	159
Liabilities at fair value through the profit and loss			
Gain on foreign currency transaction	199	42	(134)
Gain(loss) on disposal	(78)	(676)	13
Gain on valuation	331	156	32
Derivatives used for hedging			
Gain(loss) on disposal	2,352	(3,339)	2,121
Gain(loss) on valuation	(191,627)	(97,289)	3,179
Other comprehensive loss ²	(119,883)	(70,367)	(11,938)
Reclassified to profit or loss from other comprehensive income ^{2,3}	130,103	66,199	4,729
Financial liabilities at amortized cost			
Interest expense ^{1,4}	(589,727)	(548,129)	(578,210)
Gain(loss) foreign currency transaction	3,383	(330)	12,443
Gain(loss) foreign currency translation	262,383	104,820	(99,145)
Other liabilities			
Financial guarantee reversal(expense)	(11,216)	(9,034)	15,736
Total	<u>₩(305,406)</u>	<u>₩(387,349)</u>	<u>₩(693,138)</u>

1 KT Capital Co., Ltd. and KT Rental, a subsidiary of the Company, recognizes interest income and expense as operating revenue and expense. Interest income recognized as operating revenue is ₩157,135 million (2012: ₩184,182 million, 2013: ₩170,598 million) and interest expense recognized as operating expense is ₩77,158 million (2012: ₩116,810 million, 2013: ₩97,827 million) for the year ended December 31, 2014.

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

3 During the year, 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 year.

4 The amounts reflected as interest expense arising from derivatives.

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5. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2013 and 2014, are as follows:

<u>(In millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Cash on hand	₩ 5,712	₩ 3,918
Cash in banks	885,620	805,145
Money market trust	817,466	699,879
Other financial instruments	362,071	379,721
Total	<u>₩2,070,869</u>	<u>₩1,888,663</u>

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

Restricted cash and cash equivalents as of December 31, 2013 and 2014, are as follows:

<u>(In millions of Korean won)</u>	<u>Type</u>	<u>2013</u>	<u>2014</u>	<u>Description</u>
Cash and cash equivalents	Restricted deposit	₩1,998	₩3,318	Deposit restricted for governmental project and others

6. Trade and Other Receivables

Trade and other receivables as of December 31, 2013 and 2014, are as follows:

<u>2013</u>				
<u>(in millions of Korean won)</u>	<u>Total amounts</u>	<u>Allowance for doubtful accounts</u>	<u>Present value discount</u>	<u>Carrying value</u>
Current assets				
Trade receivables	₩3,791,089	₩(523,098)	₩(28,248)	₩3,239,743
Other receivables	2,143,203	(142,821)	(556)	1,999,826
Total	<u>₩5,934,292</u>	<u>₩(665,919)</u>	<u>₩(28,804)</u>	<u>₩5,239,569</u>
Non-current assets				
Trade receivables	₩ 404,372	₩ (2,568)	₩(33,539)	₩ 368,265
Other receivables	500,028	(9,775)	(45,047)	445,206
Total	<u>₩ 904,400</u>	<u>₩ (12,343)</u>	<u>₩(78,586)</u>	<u>₩ 813,471</u>

<u>2014</u>				
<u>(in millions of Korean won)</u>	<u>Total amounts</u>	<u>Allowance for doubtful accounts</u>	<u>Present value discount</u>	<u>Carrying value</u>
Current assets				
Trade receivables	₩3,657,814	₩(524,865)	₩ (9,589)	₩3,123,360
Other receivables	1,872,095	(183,987)	(418)	1,687,690
Total	<u>₩5,529,909</u>	<u>₩(708,852)</u>	<u>₩(10,007)</u>	<u>₩4,811,050</u>
Non-current assets				
Trade receivables	₩ 393,354	₩ (2,752)	₩(25,217)	₩ 365,385
Other receivables	552,190	(26,659)	(42,053)	483,478
Total	<u>₩ 945,544</u>	<u>₩ (29,411)</u>	<u>₩(67,270)</u>	<u>₩ 848,863</u>

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The fair values of trade and other receivables with original maturities less than one year equal their carrying values because the discounting effect is immaterial. The fair value of 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, 2013 and 2014, are as follows:

(in millions of Korean won)	2013		2014	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Beginning balance	₩468,118	₩175,940	₩ 525,666	₩152,596
Provision	151,240	8,926	127,881	71,254
Reversal or written-off	(92,979)	(34,227)	(124,993)	(16,201)
Changes in the scope of consolidation	338	2,349	(334)	3,759
Others	(1,051)	(392)	(603)	(762)
Ending balance	<u>₩525,666</u>	<u>₩152,596</u>	<u>₩ 527,617</u>	<u>₩210,646</u>

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

Details of aging analysis of trade receivables as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013	2014
Neither past due nor impaired	₩2,959,284	₩2,893,083
Past due and impaired		
Up to six months	725,681	707,140
Six months to twelve months	105,607	101,297
Over twelve months	343,102	314,842
	1,174,390	1,123,279
Allowance for doubtful accounts	(525,666)	(527,617)
Total	<u>₩3,608,008</u>	<u>₩3,488,745</u>

The detail of other receivables as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013	2014
Loans	₩ 89,134	₩ 81,963
Receivables ¹	2,096,086	1,834,813
Accrued income	22,603	26,032
Refundable deposits	389,199	434,846
Others	606	4,160
Allowance	(152,596)	(210,646)
Total	<u>₩2,445,032</u>	<u>₩2,171,168</u>
Current	1,999,826	1,687,690
Non-Current	<u>445,206</u>	<u>483,478</u>

¹ The settlement receivables of BC Card Co., Ltd. of ₩1,123,744 million (2013: ₩1,553,823 million) included.

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Details of aging analysis of other receivables as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013	2014
Neither past due nor impaired	₩2,312,757	₩2,046,235
Past due and impaired		
Up to six months	105,712	87,852
Six months to twelve months	16,641	77,773
Over twelve months	162,518	169,954
	284,871	335,579
Allowance for doubtful accounts	(152,596)	(210,646)
Total	₩2,445,032	₩2,171,168

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, 2014. As of December 31, 2014, the Company is provided with guarantees of ₩674,768 million by Seoul Guarantee Insurance related to the collection of certain accounts receivable arising from the handset sales.

7. Loans Receivable

Loans receivable as of December 31, 2013 and 2014, are as follows:

Current

(in millions of Korean won)	2013			2014		
	Original amount	Allowance for doubtful accounts	Carrying Value	Original amount	Allowance for doubtful accounts	Carrying Value
Factoring receivables	₩ 82,994	₩ (1,245)	₩ 81,749	₩ 64,231	₩ (2,916)	₩ 61,315
Loans	752,165	(32,722)	719,443	645,955	(28,331)	617,624
Loans for installment credit	38,799	(1,205)	37,594	32,875	(1,231)	31,644
Deferred loan origination profit and loss	(62)	—	(62)	(215)	—	(215)
Total	₩873,896	₩(35,172)	₩838,724	₩742,846	₩(32,478)	₩710,368

Non-Current

(in millions of Korean won)	2013			2014		
	Original amount	Allowance for doubtful accounts	Carrying Value	Original amount	Allowance for doubtful accounts	Carrying Value
Factoring receivables	₩ 1,073	₩ (103)	₩ 970	₩ 6,721	₩ (173)	₩ 6,548
Loans	426,218	(15,929)	410,289	497,153	(18,349)	478,804
Loans for installment credit	46,849	(5,007)	41,842	54,580	(2,336)	52,244
Deferred loan origination profit and loss	3,432	—	3,432	4,209	—	4,209
New technology financial investment assets	6,629	(803)	5,826	8,884	(1,707)	7,177
New technology financial loans	63,575	(16,061)	47,514	59,992	(24,060)	35,932
Total	₩547,776	₩(37,903)	₩509,873	₩631,539	₩(46,625)	₩584,914

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The fair values of loans receivable with maturities less than one year equal their carrying values because the discounting effect is immaterial. The fair value of loans receivables with original maturities longer than one year 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, 2013 and 2014, are as follows:

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Beginning	₩ 65,196	₩ 73,075
Provision	40,743	31,656
Reversal or written-off	(30,448)	(23,618)
Others	(2,416)	(2,010)
Ending	<u>₩ 73,075</u>	<u>₩ 79,103</u>

Provisions for doubtful loans receivable are recognized as operating expenses.

Details of aging analysis of loans receivable as of December 31, 2013 and 2014, are as follows:

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Neither past due nor impaired	<u>₩1,322,206</u>	<u>₩1,236,387</u>
Past due and impaired		
Up to six months	54,263	101,071
Six months to twelve months	27,312	3,718
Over twelve months	7,891	33,209
	89,466	137,998
Allowance for doubtful accounts	(73,075)	(79,103)
Total	<u>₩1,348,597</u>	<u>₩1,295,282</u>

The maximum exposure of loans receivables to credit risk is carrying value as of December 31, 2014.

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8. Other Financial Assets and Liabilities

Other financial assets and liabilities as of December 31, 2013 and 2014, are as follows:

(In millions of Korean won)	2013	2014
Other financial assets		
Assets at fair value through the profit and loss	₩ 15,643	₩ 6,983
Derivatives used for hedge	3,496	41,540
Financial instruments ¹	582,693	455,622
Available-for-sale financial assets	547,627	525,556
Held-to-maturity investments	3,248	7,767
Less: Non-current	(672,645)	(704,760)
Current	₩ 480,062	₩ 332,708
Other financial liabilities		
Liabilities at fair value through the profit and loss	₩ 2,956	₩ 3,980
Derivatives used for hedge	150,612	122,012
Financial guarantee liabilities ²	15,984	5,434
Other financial liabilities	73,080	82,816
Less: Non-current	(178,812)	(190,525)
Current	₩ 63,820	₩ 23,717

1 Financial assets amounting to ₩26,023 million (2013: ₩23,870 million) and ₩61 million (2013: ₩70 million) are collaterals pledged against the investee's debt and checking account deposit, which are subject to withdrawal restrictions.

2 As of December 31, 2014, the Company has funding obligation to Smart Channel Co., Ltd. The related financial guarantee liabilities of ₩5,393 million are recognized.

Financial instruments at fair value through the profit and loss as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013		2014	
	Assets	Liabilities	Assets	Liabilities
Financial instruments held for trading				
Interest rate swap	₩ 1	₩ —	₩ —	₩ —
Currency swap	7,238	—	—	—
Currency forward	499	6	—	—
Other derivatives	7,905	148	6,983	646
Financial instruments at fair value through the profit and loss	—	2,802	—	3,334
Total	₩15,643	₩2,956	₩6,983	₩3,980

The valuation gains and losses on financial instruments held for trading for the years ended December 31, 2012, 2013 and 2014 are as follows:

(in millions of Korean won)	2012		2013		2014	
	Valuation gain	Valuation loss	Valuation gain	Valuation loss	Valuation gain	Valuation loss
Interest rate swap	₩ —	₩ 2	₩ —	₩ —	₩ —	₩ 1
Currency swap	—	—	—	8,395	—	—
Currency forward	118	—	499	6	—	—
Other derivatives	—	—	3,789	1,467	643	1,006
Total	₩118	₩ 2	₩4,288	₩9,868	₩643	₩1,007

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The valuation gains and losses on financial instruments at fair value through the profit and loss for the years ended December 31, 2012, 2013 and 2014 are as follows:

(In millions of Korean won)	2012	2013	2014
Foreign currency translation gain(loss)	₩199	₩ 42	₩(134)
Gain on transactions	547	—	—
Gain(loss) on valuations	135	309	(398)
Total	<u>₩881</u>	<u>₩351</u>	<u>₩(532)</u>

The maximum exposure of debt securities of financial instruments at fair value through the profit and loss to credit risk is carrying value as of December 31, 2014.

Derivatives used for hedge as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013		2014	
	Assets	Liabilities	Assets	Liabilities
Interest rate swap ¹	₩ —	₩ 934	₩ —	₩ 601
Currency swap ²	3,496	149,678	41,540	121,411
Total	3,496	150,612	41,540	122,012
Less: non-current	(3,496)	(105,679)	(34,198)	(107,667)
Current	<u>₩ —</u>	<u>₩ 44,933</u>	<u>₩ 7,342</u>	<u>₩ 14,345</u>

- The interest rate swap contract is to hedge the risk of variability in future fair value of the bond.
- The currency swap contract is to hedge the risk of variability in cash flow from the bond. In applying the cash flow hedge accounting, the Company hedges its exposures to cash flow fluctuation until September 7, 2034.

The full value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged 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, 2012, 2013 and 2014 are as follows:

(in millions of Korean won)	2012			2013			2014		
	Valuation gain	Valuation loss	Accumulated other comprehensive income ¹	Valuation gain	Valuation loss	Accumulated other comprehensive income ¹	Valuation gain	Valuation loss	Accumulated other comprehensive income ¹
Interest rate swap	₩—	₩ —	₩ (1,206)	₩ —	₩ —	₩ 405	₩ —	₩ —	₩ 334
Currency swap	—	241,356	(169,361)	127	97,289	(95,792)	93,235	25,356	22,080
Total	<u>₩—</u>	<u>₩241,356</u>	<u>₩(170,567)</u>	<u>₩127</u>	<u>₩97,289</u>	<u>₩(95,387)</u>	<u>₩93,235</u>	<u>₩25,356</u>	<u>₩22,414</u>

- The amounts before adjustments of deferred income tax directly reflected in equity and allocation to the non-controlling interest.

The ineffective portion recognized in profit or loss on the cash flow hedge is valuation income of ₩1,178 million for the current period (2012: valuation loss of ₩29,183 million, 2013: valuation loss of ₩1,241 million).

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Details of available-for-sale financial assets as of December 31, 2013 and 2014, are as follows:

(In millions of Korean won)	2013	2014
Marketable equity securities	₩ 55,347	₩ 55,631
Non-marketable equity securities	466,302	442,055
Marketable debt securities	25,211	10,301
Non-marketable debt securities	767	17,569
Total	547,627	525,556
Less: non-current	(544,968)	(509,253)
Current	₩ 2,659	₩ 16,303

Changes of available-for-sale financial assets for the years ended December 31, 2013 and 2014, are as follows:

(In millions of Korean won)	2013	2014
Beginning	₩ 429,875	₩ 547,627
Acquisition	127,052	78,095
Disposal	(66,917)	(138,394)
Reclassification ¹	(3,000)	48,684
Impairment ²	(5,053)	(70,022)
Valuation ³	65,670	51,894
Changes in scope of consolidation	—	7,672
Ending	₩ 547,627	₩ 525,556

- 1 During the year ended December 31, 2014, KT ENGCORE Co., Ltd. (formerly KT ENS corporation) was reclassified to available-for-sale financial securities from investment in subsidiaries due to the commencement of rehabilitation procedures (Note 1.2).
- 2 Includes impairment losses of ₩48,684 million on KT ENGCORE Co., Ltd. (formerly KT ENS corporation) recognized in 2014.
- 3 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, 2014.

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.

None of the available-for-sale financial assets are past due and the impaired assets amount to ₩12,942 million as of December 31, 2014.

Investment in Korea Software Financial Cooperative amounting to ₩1,000 million is provided as collateral as consideration for payment guarantees provided by Korea Software Financial Cooperative (Note 20).

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9. Inventories

Inventories as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013			2014		
	Acquisition cost	Valuation allowance	Book Value	Acquisition cost	Valuation allowance	Book Value
Merchandise	₩719,164	₩(122,919)	₩596,245	₩445,644	₩(62,902)	₩382,742
Goods in transit	611	—	611	—	—	—
Others	77,051	(289)	76,762	36,474	(333)	36,141
Total	<u>₩796,826</u>	<u>₩(123,208)</u>	<u>₩673,618</u>	<u>₩482,118</u>	<u>₩(63,235)</u>	<u>₩418,883</u>

Cost of inventories recognized as expenses for year ended December 31, 2014, amounts to ₩3,683,293 million (2012: ₩4,568,286 million, 2013: ₩3,797,973 million) and reversal of valuation allowance on inventory recognized amounts to ₩59,973 million for year ended December 31, 2014 (2012: valuation loss of ₩23,931 million, 2013: ₩88,946 million).

10. Other Assets and Liabilities

Other assets and liabilities as of December 31, 2013 and 2014, are as follows:

(In millions of Korean won)	2013	2014
Other assets		
Advance payments	₩134,758	₩126,674
Prepaid expenses	258,387	284,887
Others	22,199	10,095
Less: Non-current	(75,748)	(72,041)
Current	<u>₩339,596</u>	<u>₩349,615</u>
Other liabilities		
Advances received	₩191,767	₩193,900
Withholdings	129,484	100,345
Unearned revenue	27,313	22,208
Others	1,512	889
Less: Non-current	(2,000)	(38,590)
Current	<u>₩348,076</u>	<u>₩278,752</u>

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11. Property, Plant and Equipment

The changes in property, plant and equipment for the years ended December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013					
	Land	Buildings and structures	Machinery and equipment	Others	Construction-in-progress	Total
Acquisition cost	₩1,243,388	₩ 3,264,020	₩ 32,184,133	₩ 3,632,642	₩ 867,842	₩ 41,192,025
Accumulated depreciation (including accumulated impairment loss and others)	(132)	(1,078,090)	(22,331,175)	(1,961,444)	(14,818)	(25,385,659)
Balance at 2013.1.1	1,243,256	2,185,930	9,852,958	1,671,198	853,024	15,806,366
Acquisition	2,718	14,178	417,218	1,051,278	2,843,801	4,329,193
Disposal/Abandonment	(3,297)	(21,448)	(173,102)	(157,278)	(283,677)	(638,802)
Depreciation	—	(112,046)	(2,428,859)	(553,709)	—	(3,099,738)
Transfer in (out)	9,671	12,544	2,188,686	104,024	(2,314,925)	—
Inclusion in scope of consolidation	42	39	293	9	—	383
Exclusion from scope of consolidation	—	(379)	(87)	(348)	—	(814)
Others	1,090	(18,848)	36,618	(13,792)	(19,816)	(14,748)
Balance at 2013.12.31	₩1,253,480	₩ 2,059,970	₩ 9,893,725	₩ 2,101,382	₩ 1,078,407	₩ 16,386,964
Acquisition cost	₩1,253,612	₩ 3,270,339	₩ 32,103,084	₩ 4,232,627	₩ 1,092,155	₩ 41,951,817
Accumulated depreciation (including accumulated impairment loss and others)	(132)	(1,210,369)	(22,209,359)	(2,131,245)	(13,748)	(25,564,853)
(in millions of Korean won)	2014					
	Land	Buildings and structures	Machinery and equipment	Others	Construction-in-progress	Total
Acquisition cost	₩1,253,612	₩ 3,270,339	₩ 32,103,084	₩ 4,232,627	₩ 1,092,155	₩ 41,951,817
Accumulated depreciation (including accumulated impairment loss and others)	(132)	(1,210,369)	(22,209,359)	(2,131,245)	(13,748)	(25,564,853)
Balance at 2014.1.1	1,253,480	2,059,970	9,893,725	2,101,382	1,078,407	16,386,964
Acquisition	—	4,293	255,419	1,129,330	2,268,594	3,657,636
Disposal/Abandonment	(8,781)	(16,972)	(171,691)	(182,466)	(16,759)	(396,669)
Depreciation	—	(105,402)	(2,450,216)	(635,282)	—	(3,190,900)
Transfer in (out)	24,072	75,422	2,295,290	83,380	(2,478,164)	—
Inclusion in scope of consolidation	8,657	4,189	2,921	3,024	—	18,791
Exclusion from scope of consolidation	(4,234)	(5,064)	(3,462)	(2,493)	—	(15,253)
Others	14,495	(7,186)	11,683	(1,245)	(10,120)	7,627
Balance at 2014.12.31	₩1,287,689	₩ 2,009,250	₩ 9,833,669	₩ 2,495,630	₩ 841,958	₩ 16,468,196
Acquisition cost	₩1,287,821	₩ 3,345,587	₩ 33,390,640	₩ 4,806,849	₩ 845,662	₩ 43,676,559
Accumulated depreciation (including accumulated impairment loss and others)	(132)	(1,336,337)	(23,556,971)	(2,3211,219)	(3,704)	(27,208,363)

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Details of property, plant and equipment provided as collateral as of December 31, 2013 and 2014 are as follows:

(in millions of Korean won)	2013				
	Carrying amount	Secured amount	Related line item	Related amount	Secured party
Buildings	₩11,356	₩7,800	Borrowings	₩6,000	Shin-Han Bank
Machinery and equipment	37,248	2,786	Borrowings	2,322	Korea Exchange Bank

(in millions of Korean won)	2014				
	Carrying amount	Secured amount	Related line item	Related amount	Secured party
Land/Buildings	₩12,839	₩12,000	Borrowings	₩10,000	SC Bank
Buildings	10,875	7,800	Borrowings	6,000	Hana Bank

The borrowing costs capitalized for qualifying assets amount to ₩14,493 million (2013: ₩20,144 million) in 2014. The interest rate applied to calculate the capitalized borrowing costs in 2014 is 3.56% to 4.05%. (2013: 3.95% to 4.44%).

12. Investment Property

The changes in investment property for the years ended December 31, 2013 and 2014 are as follows:

(in millions of Korean won)	2013			
	Land	Buildings	Construction-in-progress	Total
Acquisition cost	₩335,447	₩1,022,454	₩ —	₩1,357,901
Accumulated depreciation	—	(202,688)	—	(202,688)
Beginning	₩335,447	₩ 819,766	₩ —	₩1,155,213
Acquisition	3,053	11,352	3,778	18,183
Disposal/Abandonment	(420)	(7,657)	—	(8,077)
Depreciation	—	(47,232)	—	(47,232)
Transfer	(9,116)	(3,476)	—	(12,592)
Ending	₩328,964	₩ 772,753	₩3,778	₩1,105,495
Acquisition cost	₩328,964	₩1,015,079	₩3,778	₩1,347,821
Accumulated depreciation	—	(242,326)	—	(242,326)

(in millions of Korean won)	2014			
	Land	Buildings	Construction-in-progress	Total
Acquisition cost	₩ 328,964	₩ 1,015,079	₩ 3,778	₩ 1,347,821
Accumulated depreciation	—	(242,326)	—	(242,326)
Beginning	₩ 328,964	₩ 772,753	₩ 3,778	₩ 1,105,495
Acquisition	—	4,443	15,600	20,043
Disposal/Abandonment	(1,487)	(5,740)	—	(7,227)
Depreciation	—	(51,446)	—	(51,446)
Transfer	(11,683)	4,448	—	(7,235)
Ending	₩ 315,794	₩ 724,458	₩19,378	₩ 1,059,630
Acquisition cost	₩ 315,794	₩ 1,003,031	₩19,378	₩ 1,338,203
Accumulated depreciation	—	(278,573)	—	(278,573)

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The fair value of investment property is ₩2,277,234 million as of December 31, 2014 (2013: ₩2,051,183 million). The fair value of investment property is estimated based on the expected cash flow.

Rental income from investment property is ₩216,976 million in 2013 (2013: ₩197,673 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.

Details of investment property provided as collateral as of December 31, 2013 and 2014, are as follows:

		2013		
(in millions of Korean won)		Carrying amount	Secured amount	Collateral for
Land	₩ 23,258	₩ 1,484	Deposits received	₩31,727
Buildings	360,489	40,713		

		2014		
(in millions of Korean won)		Carrying amount	Secured amount	Collateral for
Land	₩ 10,773	₩ 6,773	borrowings	₩ 5,210
Buildings	345,281	47,350	Deposits received	₩34,675

13. Intangible Assets

The changes in intangible assets for the years ended December 31, 2013 and 2014 are as follows:

		2013				
(in millions of Korean won)		Goodwill	Development costs	Software	Frequency usage rights	Others
Acquisition cost	₩605,776	₩1,393,089	₩ 614,069	₩ 1,924,869	₩1,013,046	₩ 5,550,849
Accumulated amortization (including accumulated impairment loss and others)	(7,749)	(764,426)	(374,043)	(880,511)	(310,482)	(2,337,211)
Balance at 2013.1.1	598,027	628,663	240,026	1,044,358	702,564	3,213,638
Acquisition ¹	9,272	137,420	87,898	844,462	125,563	1,204,615
Disposal	—	(57,956)	(5,645)	—	(7,617)	(71,218)
Amortization	—	(155,280)	(61,413)	(161,226)	(100,983)	(478,902)
Impairment	(12,954)	(4,743)	(1,019)	—	(17,490)	(36,206)
Inclusion in scope of consolidation	—	—	501	—	—	501
Exclusion in scope of consolidation	—	—	—	—	—	—
Others	(2,006)	(30)	1,968	(388)	(4,579)	(5,035)
Balance at 2013.12.31	₩592,339	₩ 548,074	₩ 262,316	₩ 1,727,206	₩ 697,458	₩ 3,827,393
Acquisition cost	₩610,715	₩1,359,478	₩ 681,176	₩ 2,768,943	₩1,100,540	₩ 6,520,852
Accumulated amortization (including accumulated impairment loss and others)	(18,376)	(811,404)	(418,860)	(1,041,737)	(403,082)	(2,693,459)

¹ The Company had acquired the 1.8GHz frequency amortized during its useful life using the straight-line method.

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	2014					
(in millions of Korean won)	Goodwill	Development costs	Software	Frequency usage rights	Others	Total
Acquisition cost	₩ 610,715	₩ 1,359,478	₩ 681,176	₩ 2,768,943	₩ 1,100,540	₩ 6,520,852
Accumulated amortization (including accumulated impairment loss and others)	(18,376)	(811,404)	(418,860)	(1,041,737)	(403,082)	(2,693,459)
Balance at 2014.1.1	592,339	548,074	262,316	1,727,206	697,458	3,827,393
Acquisition	—	286,516	95,781	—	51,633	433,930
Disposal	(1,519)	(16,713)	(2,205)	—	(6,359)	(26,796)
Amortization	—	(171,817)	(101,344)	(253,588)	(85,669)	(612,418)
Impairment ¹	(11,693)	—	(5,210)	(69,428)	(944)	(87,275)
Inclusion in scope of consolidation	—	733	1,363	—	13,548	15,644
Exclusion in scope of consolidation	—	(3,297)	(4,960)	—	(2,052)	(10,309)
Others	621	7,191	(2,080)	—	(1,868)	3,864
Balance at 2014.12.31	₩ 579,748	₩ 650,687	₩ 243,661	₩ 1,404,190	₩ 665,747	₩ 3,544,033
Acquisition cost	₩ 609,817	₩ 1,589,994	₩ 747,343	₩ 2,768,943	₩ 1,154,915	₩ 6,871,012
Accumulated amortization (including accumulated impairment loss and others)	(30,069)	(939,307)	(503,682)	(1,364,753)	(489,168)	(3,326,979)

1 The Company recognized the impairment loss of ₩69,428 million on 800 Mhz frequency usage right considering its recoverable amount.

The carrying value of facility usage rights with indefinite useful life not subject to amortization is ₩149,832 million (2013: ₩150,654 million) as of December 31, 2014.

Goodwill is allocated to the Company's cash-generating unit which is identified by operating segments. As of December 31, 2014, goodwill allocated to each cash-generation unit is as follows:

(in millions of Korean won)

Customer/Marketing	
Wireless business ¹	₩ 65,057
Finance and Rental	
KT Rental ²	131,426
BC Card Co., Ltd. ²	41,234
Others	
KT Skylife Co., Ltd. ²	306,303
KT Powertel Co., Ltd. and others	35,728
Total	₩579,748

1 The recoverable amounts of mobile business are calculated based on value-in use calculations. These calculations use pre-tax cash flow projections for the next four years based on financial budgets approved by management. Cash flow exceeds the financial budgets are estimated by the expected growth rate. This growth rate does not exceed the long-term average growth rate of the industry which the cash-generate unit belongs in. The Company estimated its revenue growth rate based on past performance and its expectation of future market changes.

2 The recoverable amounts of KT Rental, BC Card Co., Ltd., and KT Skylife Co., Ltd. are calculated based on value-in use calculations. These calculations use cash flow projections for the next five years based on financial budgets. Cash flow that exceeds the financial budgets is projected by expected growth rate. This growth rate does not exceed the long-term average growth rate of the industry which the cash-generate unit belongs in. The Company estimated its revenue growth rate based on past performance and its expectation of future market changes. The Company determined cash flow projections based

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on past performance and its estimation of market growth. Specific risk of related operating segment is reflected in its discount rate. As a result of the impairment test, there is no impairment loss on goodwill allocated to KT Rental, BC Card Co., Ltd., and KT Skylife Co., Ltd., respectively, as of December 31, 2014.

As a result of the impairment test, the Company recognized the impairment losses of ₩11,693 million on goodwill allocated to KT Innoedu Co., Ltd. and three other subsidiaries included in the others segment. And recognized the losses as operating expenses in the consolidated statement of the income. The Company considers that the carrying value of other cash generating units does not exceed the recoverable amount of the CGUs.

14. Investments in Associates and Jointly Controlled Entities

Details of associates as of December 31, 2014, are as follows:

(a) Associates

Company	Percentage of ownership (%)		Location	Date of financial statements
	2013	2014		
ktcs Corporation ¹	17.8%	—	Korea	December 31
ktis Corporation ¹	17.8%	—	Korea	December 31
Korea Information & Technology Fund	33.3%	33.3%	Korea	December 31
KT-SB Venture Investment ²	50.0%	50.0%	Korea	December 31
Mongolian Telecommunications	40.0%	40.0%	Mongolia	December 31
KT Wibro Infra Co., Ltd.	26.2%	26.2%	Korea	December 31
KT-CKP New Media Investment Fund	49.7%	49.7%	Korea	December 31
QTT Global (Group) Company Limited	25.0%	25.0%	China	December 31
How Smartmall Private Special Asset Investment Trust ³	80.8%	80.8%	Korea	December 31

- 1 As of December 31, 2013, even though the Company has less than 20% ownership, the equity method of accounting has been applied as it is considered that the Company has the significant influence over the operating and financial policies of these entities. As the company obtained control over these entities in 2014, these entities was reclassified as subsidiaries.
- 2 At the end of the reporting period, even though the Company has 50% ownership, the equity method of accounting has been applied as the Company, which is a limited partner of investment fund, cannot participate in determining the operating and financial policies.
- 3 At the end of the reporting period, even though the Company has 80.8% ownership, the equity method of accounting has been applied as the Company, which is a limited partner of investment fund, cannot determine the operating and financial policies without other partner's consent.

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The changes in investments in associates and jointly controlled entities for the years ended December 31, 2013 and 2014, are as follows:

2013					
(in millions of Korean won)	Beginning	Acquisition (Disposal)	Share in income (loss) of jointly controlled entities and associates ¹	Others	Ending
ktcs Corporation	₩ 21,784	₩ —	₩ 2,702	₩ (2,306)	₩ 22,180
ktis Corporation	21,870	—	2,511	(1,053)	23,328
Korea Information & Technology Fund	121,113	—	2,910	(241)	123,782
KT-SB Venture Investment	12,385	3,750	216	(421)	15,930
Mongolian Telecommunications	9,999	—	172	(1,475)	8,696
Metropol Property LLC	1,783	—	558	(982)	1,359
KT Wibro Infra Co., Ltd.	66,741	—	812	—	67,553
KTF-CJ Music Contents Investment Fund	5,052	(3,561)	(1,491)	—	—
KT-CKP new media Investment Fund	—	2,250	(73)	—	2,177
QTT Global (Group) Company Limited	12,949	—	121	45	13,115
How Smartmall Private Special Asset Investment Trust	32,503	—	2,967	(7,064)	28,406
Others	73,316	(9,188)	(1,183)	(5,568)	57,377
Total	₩ 379,495	₩(6,749)	₩ 10,222	₩(19,065)	₩ 363,903

	2014					
(in millions of Korean won)	Beginning	Acquisition (Disposal)	Reclassification	Share in income (loss) of jointly controlled entities and associates ¹	Others	Ending
ktcs Corporation ²	₩ 22,180	₩ —	₩(22,505)	₩ 1,703	₩ (1,378)	₩ —
ktis Corporation ³	23,328	—	(24,343)	1,766	(751)	—
Korea Information & Technology Fund	123,782	—	—	(42)	(773)	122,967
KT-SB Venture Investment	15,930	(1,938)	—	13,302	(4,737)	22,557
Mongolian Telecommunications	8,696	—	—	97	(1,316)	7,477
KT Wibro Infra Co., Ltd.	67,553	—	—	938	—	68,491
KT-CKP New Media Investment Fund	2,177	2,250	—	(441)	—	3,986
QTT Global (Group) Company Limited	13,115	—	—	222	(361)	12,976
How Smartmall Private Special Asset Investment Trust	28,406	—	—	2,747	(3,523)	27,630
Others	58,736	(12,203)	—	4,069	22,094	72,696
Total	₩ 363,903	₩(11,891)	₩(46,848)	₩24,361	₩ 9,255	₩ 338,780

1 KT Capital Co., Ltd., a subsidiary of the Company, recognizes its share in income (loss) from jointly controlled entities and associates as operating revenue and expense. These include its share in income of jointly controlled entities and associates of ₩6,605 million (2012: ₩6,591 million, 2013: ₩4,155 million) recognized as operating revenue and its share in loss of jointly controlled entities and associates of ₩442 million (2012: ₩362 million, 2013: ₩534 million) recognized as operating expense.

2 As the Company obtained control over the entity in 2014, the entity was reclassified as a subsidiary. As a result of the reclassification, the Company recognized differences of ₩2,469 million between the fair value of ₩22,907 million and the book value of ₩25,376 million (including reclassification adjustment of accumulated other comprehensive income of ₩2,871 million) as operating expenses.

3 As the Company obtained control over the entity in 2014, the entity was reclassified as a subsidiary. As a result of the reclassification, the Company recognized differences of ₩4,667 million between the fair value of ₩21,992 million and the book value of ₩26,659 million (including reclassification adjustment of accumulated other comprehensive income of ₩2,316 million) as operating expenses.

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The summary of financial information of associates and joint ventures as of and for the years ended December 31, 2013 and 2014, follows:

(In millions of Korean won)	2013			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
ktcs corporation	₩130,585	₩ 50,403	₩ 54,115	₩ 2,061
ktis corporation	140,119	41,733	48,636	2,124
Korea Information & Technology Fund	132,143	239,203	—	—
KT-SB Venture Investment	5,578	26,964	682	—
Mongolian Telecommunications	14,670	12,869	5,798	—
Metropol Property LLC	4,267	—	3,340	—
KT Wibro Infra Co., Ltd	159,309	103,401	5,004	45
KT-CKP New Media Investment Fund	1,722	2,666	4	—
QTT Global(Group) Company Limited	20,117	1,310	5,019	—
K- Realty CR-REITs No.1	11,620	484,204	3,534	294,474
How Smartmall Private Special Asset Investment Trust	38,374	—	899	—
Others	79,606	302,427	116,967	62,038
Total	₩738,110	₩1,265,180	₩243,998	₩360,742

(In millions of Korean won)	2013				
	Operating revenue	Net profit (loss)	Other comprehensive income(loss)	Total comprehensive income(loss)	Dividends received from associates
ktcs Corporation	₩ 396,212	₩14,480	₩(4,293)	₩ 10,187	₩ 813
ktis Corporation	387,720	13,573	(3,274)	10,299	620
Korea Information & Technology Fund	17,345	8,730	—	8,730	—
KT-SB Venture Investment	370	637	—	637	421
Mongolian Telecommunications	10,877	447	(42)	405	23
Metropol Property LLC	502	133	6	139	911
KT Wibro Infra Co., Ltd	1,660	3,169	—	3,169	—
KT-CKP New Media Investment Fund	33	(146)	—	(146)	—
QTT Global(Group) Company Limited	21,024	2,105	82	2,187	—
K- Realty CR-REITs No.1	39,064	11,091	—	11,091	2,521
How Smartmall Private Special Asset Investment Trust	3,870	3,673	—	3,673	3,848
Others	371,120	(9,882)	(418)	(10,300)	1,444
Total	₩1,249,797	₩48,010	₩(7,939)	₩ 40,071	₩10,601

(In millions of Korean won)	2014			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Korea Information & Technology Fund	₩122,026	₩246,874	₩ —	₩ —
KT-SB Venture Investment	22,402	23,368	656	—
Mongolian Telecommunications	12,636	10,648	4,591	—
KT Wibro Infra Co., Ltd.	205,147	61,068	4,960	40
KT-CKP New Media Investment Fund	4,588	3,441	4	—
QTT Global(Group) Company Limited	15,439	414	—	—
K- Realty CR-REITs No.1	36,017	461,720	6,477	291,583
How Smartmall Private Special Asset Investment Trust	37,412	—	875	—
Others	321,497	188,435	144,915	118,904
Total	₩777,164	₩995,968	₩162,478	₩410,527

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(In millions of Korean won)	2014				
	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	Dividends received from associates
Korea Information & Technology Fund	₩ 10,411	₩ (128)	₩ (835)	₩ (963)	₩ 494
KT-SB Venture Investment	1,056	26,603	—	26,603	4,238
Mongolian Telecommunications	8,745	242	—	242	—
KT Wibro Infra Co., Ltd.	1,237	3,555	—	3,555	—
KT-CKP New Media Investment Fund	89	(888)	80	(808)	—
QTT Global(Group) Company Limited	9,462	887	(156)	731	—
K-Realty CR-REITs No.1	39,233	17,822	—	17,822	2,394
How Smartmall Private Special Asset Investment Trust	3,580	3,401	—	3,401	2,767
Others	463,322	(13,134)	(2,754)	(15,888)	7,738
Total	<u>₩537,135</u>	<u>₩ 38,360</u>	<u>₩(3,665)</u>	<u>₩ 34,695</u>	<u>₩17,631</u>

Details of a reconciliation of the summarized financial information to the carrying amount of interests in the associates and joint ventures as of and for the years end December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013					
	Net assets	Percentage of ownership	Share in net assets	Goodwill	Intercompany transaction and others	Book value
ktcs Corporation	₩124,812	17.8%	₩ 22,217	₩ —	₩ (37)	₩ 22,180
ktis Corporation	131,092	17.8%	23,340	—	(12)	23,328
Korea Information & Technology Fund ...	371,346	33.3%	123,782	—	—	123,782
KT-SB Venture Investment	31,860	50.0%	15,930	—	—	15,930
Mongolian Telecommunications	21,741	40.0%	8,696	—	—	8,696
Metropol Property LLC	927	34.0%	315	1,044	—	1,359
KT-CKP New Media Investment Fund	4,384	49.7%	2,177	—	—	2,177
QTT Global(Group) Company Limited	16,408	25.0%	4,102	9,013	—	13,115
KT Wibro Infra Co., Ltd.	257,661	26.2%	67,553	—	—	67,553
How Smartmall Private Special Asset Investment Trust	37,475	80.8%	30,269	—	(1,863)	28,406

(in millions of Korean won)	2014					
	Net assets	Percentage of ownership	Share in net assets	Goodwill	Intercompany transaction and others	Book value
Korea Information & Technology Fund ...	₩368,900	33.3%	₩122,967	₩ —	₩ —	₩122,967
KT-SB Venture Investment	45,114	50.0%	22,557	—	—	22,557
Mongolian Telecommunications	18,693	40.0%	7,477	—	—	7,477
KT Wibro Infra Co., Ltd.	261,215	26.2%	68,491	—	—	68,491
KT-CKP New Media Investment Fund	8,025	49.7%	3,986	—	—	3,986
QTT Global (Group) Company Limited ...	15,853	25.0%	3,963	9,013	—	12,976
How Smartmall Private Special Asset Investment Trust	36,537	80.8%	29,511	—	(1,881)	27,630

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Marketable investments in associates and joint ventures as of December 31, 2013 and 2014, are as follows:

	2013		
	Number of shares	Book Value (In millions of Korean won)	Fair Value (In millions of Korean won)
ktcs Corporation	8,132,130	₩22,180	₩28,218
ktis Corporation	6,196,190	23,328	31,539
Mongolian Telecommunications	10,348,111	8,696	10,083

	2014		
	Number of shares	Book Value (In millions of Korean won)	Fair Value (In millions of Korean won)
Mongolian Telecommunications	10,348,111	₩7,477	₩8,247

The Company has not recognized loss from associates and jointly controlled entities of ₩11,425 million for the year (2012: ₩7,308 million, 2013: ₩17,428 million). The accumulated comprehensive loss of joint ventures and associates as of December 31, 2014, which was not recognized by the Company is ₩50,996 million (2012: ₩22,143 million, 2013: ₩39,571 million).

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

(In millions of Korean won)	Investee	Amount
Investments in associate	Smart Channel Co., Ltd.	₩6,500

15. Trade and other payables

The Company's trade and other payables as of December 31, 2013 and 2014, are as follows:

(In millions of Korean won)	2013	2014
Current liabilities		
Trade payables	₩1,716,686	₩1,200,032
Other payables	5,697,137	5,208,079
Total	₩7,413,823	₩6,408,111
Non-current liabilities		
Trade payables	₩ 10,430	₩ 6,457
Other payables	1,048,454	902,735
Total	₩1,058,884	₩ 909,192

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

(In millions of Korean won)	2013	2014
Non-trade payables ¹	₩ 4,469,781	₩3,768,923
Accrued expenses	937,307	949,392
Operating deposits	863,494	886,165
Others	475,009	506,334
Less: non-current	(1,048,454)	(902,735)
Current	₩ 5,697,137	₩5,208,079

¹ Settlement payables of BC Card Co., Ltd. of ₩1,331,249 million related to credit card transactions included as of December 31, 2014 (2013: ₩1,725,396 million).

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16. Bonds Payable and Borrowings

Details of bonds payable and borrowings as of December 31, 2013 and 2014, are as follows:

Bonds Payable

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

Type	Maturity	Annual interest rates	2013		2014	
			Foreign currency	Korean won	Foreign currency	Korean won
MTNP notes ¹	—	—	USD 600,000	₩633,180	—	₩ —
MTNP notes ¹	Sep 07, 2034	6.50%	USD 100,000	105,530	USD 100,000	109,920
MTNP notes ¹	Jul 15, 2015	4.88%	USD 400,000	422,120	USD 400,000	439,680
MTNP notes ¹	May 03, 2016	5.88%	USD 200,000	211,060	USD 200,000	219,840
Reg S bonds	Jan 20, 2017	3.88%	USD 350,000	369,355	USD 350,000	384,720
FR notes ²	Aug 28, 2018	LIBOR(3M)+1.15%	USD 300,000	316,590	USD 300,000	329,760
FR notes	Apr 22, 2017	1.75%	—	—	USD 650,000	714,480
FR notes	Apr 22, 2019	2.63%	—	—	USD 350,000	384,720
Japanese yen bonds	Jan 29, 2015	0.59%	JPY 5,000,000	50,233	JPY 5,000,000	46,007
Japanese yen bonds	Jan 29, 2016	0.70%	JPY 18,200,000	182,848	JPY 18,200,000	167,465
Japanese yen bonds	Jan 29, 2018	0.86%	JPY 6,800,000	68,317	JPY 6,800,000	62,570
The 163rd Public bond	—	—	—	170,000	—	—
The 165-2nd Public bond	—	—	—	140,000	—	—
The 167-2nd Public bond	Apr 20, 2015	4.84%	—	100,000	—	100,000
The 168-2nd Public bond	Jun 21, 2015	4.66%	—	90,000	—	90,000

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

Type	Maturity	Annual interest rates	2013		2014	
			Foreign currency	Korean won	Foreign currency	Korean won
The 173-2nd Public bond	Aug 06, 2018	6.62%	—	100,000	—	100,000
The 175-2nd Public bond	—	—	—	360,000	—	—
The 176-2nd Public bond	—	—	—	170,000	—	—
The 176-3rd Public bond	May 28, 2016	5.24%	—	260,000	—	260,000
The 177-2nd Public bond	Feb 09, 2015	5.26%	—	190,000	—	190,000
The 177-3rd Public bond	Feb 09, 2017	5.38%	—	170,000	—	170,000
The 178-2nd Public bond	—	—	USD 100,000	105,530	—	—
The 179th Public bond	Mar 29, 2018	4.47%	—	260,000	—	260,000
The 180-1st Public bond	Apr 26, 2016	4.35%	—	210,000	—	210,000
The 180-2nd Public bond	Apr 26, 2021	4.71%	—	380,000	—	380,000
The 181-1st Public bond	Aug 26, 2016	3.94%	—	260,000	—	260,000
The 181-2nd Public bond	Aug 26, 2018	3.99%	—	90,000	—	90,000
The 181-3rd Public bond	Aug 26, 2021	4.09%	—	250,000	—	250,000
The 182-1st Public bond	Oct 28, 2016	4.11%	—	320,000	—	320,000
The 182-2nd Public bond	Oct 28, 2021	4.31%	—	100,000	—	100,000
The 183-1st Public bond	Dec 22, 2016	3.81%	—	50,000	—	50,000
The 183-2nd Public bond	Dec 22, 2021	4.09%	—	90,000	—	90,000
The 183-3rd Public bond	Dec 22, 2031	4.27%	—	160,000	—	160,000
The 184-1st Public bond	Apr 10, 2018	2.74%	—	120,000	—	120,000
The 184-2nd Public bond	Apr 10, 2023	2.95%	—	190,000	—	190,000
The 184-3rd Public bond	Apr 10, 2033	3.17%	—	100,000	—	100,000
The 185-1st Public bond	Sep 16, 2018	3.46%	—	200,000	—	200,000
The 185-2nd Public bond	Sep 16, 2020	3.65%	—	300,000	—	300,000
The 186-1st Public bond	Jun 26, 2017	2.86%	—	—	—	120,000
The 186-2nd Public bond	Jun 26, 2019	3.08%	—	—	—	170,000
The 186-3rd Public bond	Jun 26, 2024	3.42%	—	—	—	110,000

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Type	Maturity	Annual interest rates	2013		2014	
			Foreign currency	Korean won	Foreign currency	Korean won
The 186-4th Public bond	Jun 26, 2034	3.70%	—	—	—	100,000
The 187-1st Public bond	Sep 02, 2017	2.69%	—	—	—	110,000
The 187-2nd Public bond	Sep 02, 2019	2.97%	—	—	—	220,000
The 187-3rd Public bond	Sep 02, 2024	3.31%	—	—	—	170,000
The 187-4th Public bond	Sep 02, 2034	3.55%	—	—	—	100,000
The 32-3rd Public bond	Jan 22, 2015	6.70%	—	30,000	—	30,000
Asset backed short-term bond	—	—	—	10,000	—	—
The 33rd Public bond	Feb 11, 2015	6.45%	—	50,000	—	50,000
The 36-3rd Public bond	Apr 30, 2015	5.65%	—	20,000	—	20,000
The 37-4th Public bond	—	—	—	10,000	—	—
The 38-3rd Public bond	—	—	—	10,000	—	—
The 40-3rd Public bond	Aug 10, 2015	5.95%	—	20,000	—	20,000
The 41-3rd Public bond	—	—	—	10,000	—	—
The 42-2nd Public bond	—	—	—	20,000	—	—
The 42-3rd Public bond	Nov 22, 2015	5.44%	—	10,000	—	10,000
The 43-1st Public bond	—	—	—	40,000	—	—
The 43-2nd Public bond	Jan 28, 2015	5.32%	—	10,000	—	10,000
The 43-3rd Public bond	Jan 28, 2016	5.75%	—	30,000	—	30,000
The 45th Private bond	—	—	—	30,000	—	—
The 46-2nd Public bond	—	—	—	40,000	—	—
The 46-3rd Public bond	May 26, 2015	4.71%	—	20,000	—	20,000
The 46-4th Public bond	May 26, 2016	4.90%	—	20,000	—	20,000
The 47th Public bond	—	—	—	30,000	—	—
The 48th Public bond	Aug 11, 2016	4.71%	—	10,000	—	10,000
The 49th Public bond	—	—	—	20,000	—	—
The 50-2nd Public bond	Sep 21, 2016	4.87%	—	5,000	—	5,000
The 51-1st Public bond	—	—	—	10,000	—	—
The 51-2nd Public bond	Sep 30, 2016	4.92%	—	20,000	—	20,000
The 52-2nd Public bond	—	—	—	10,000	—	—
The 54th Public bond	—	—	—	10,000	—	—
The 55-1st Public bond	—	—	—	40,000	—	—
The 55-2nd Public bond	Nov 16, 2015	4.56%	—	20,000	—	20,000
The 55-3rd Public bond	Nov 16, 2016	4.74%	—	5,000	—	5,000
The 56th Public bond	—	—	—	35,000	—	—
The 57-1st Public bond	—	—	—	50,000	—	—
The 57-2nd Public bond	Jan 05, 2016	4.44%	—	20,000	—	20,000
The 57-3rd Public bond	Jan 05, 2017	4.61%	—	30,000	—	30,000
The 58-1st Public bond	—	—	—	30,000	—	—
The 58-2nd Public bond	Jul 10, 2015	4.37%	—	20,000	—	20,000
The 59-1st Public bond	May 25, 2015	3.78%	—	20,000	—	20,000
The 59-2nd Public bond	May 25, 2016	3.87%	—	20,000	—	20,000
The 59-3rd Public bond	May 25, 2017	4.03%	—	40,000	—	40,000
The 60th Public bond ²	Jul 13, 2015	CD(91D)+0.39%	—	40,000	—	40,000
The 61st Public bond	Sep 22, 2017	3.65%	—	45,000	—	45,000
The 62-1st Public bond	Aug 27, 2015	3.19%	—	20,000	—	20,000
The 62-2nd Public bond	Oct 11, 2017	3.43%	—	50,000	—	50,000
The 63rd Public bond	Sep 27, 2017	3.44%	—	40,000	—	40,000
The 64-1st Public bond	Oct 29, 2015	3.26%	—	20,000	—	20,000
The 64-2nd Public bond	Dec 21, 2017	3.46%	—	50,000	—	50,000
The 65th Public bond	Mar 22, 2018	3.47%	—	55,000	—	55,000
The 66th Public bond	Apr 02, 2018	3.52%	—	54,000	—	54,000
The 67-1st Public bond	Mar 22, 2017	3.00%	—	30,000	—	30,000

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Type	Maturity	Annual interest rates	2013		2014	
			Foreign currency	Korean won	Foreign currency	Korean won
The 67-2nd Public bond	Mar 22, 2018	3.10%	—	40,000	—	40,000
The 67-3rd Public bond	Mar 22, 2020	3.37%	—	20,000	—	20,000
The 68-1st Public bond	Apr 30, 2016	2.85%	—	40,000	—	40,000
The 68-2nd Public bond	Apr 30, 2017	2.92%	—	10,000	—	10,000
The 69-1st Public bond	—	—	—	20,000	—	—
The 69-2nd Public bond ² . . .	Jun 27, 2016	CD(91D)+0.43%	—	20,000	—	20,000
The 69-3rd Public bond	Jun 27, 2018	3.81%	—	20,000	—	20,000
The 70-1st Public bond	Oct 28, 2016	3.29%	—	40,000	—	40,000
The 70-2nd Public bond	Oct 28, 2018	3.63%	—	10,000	—	10,000
The 71-1st Public bond	Nov 29, 2016	3.46%	—	10,000	—	10,000
The 71-2nd Public bond	Nov 29, 2020	4.14%	—	30,000	—	30,000
The 72-1st Public bond	Dec 23, 2015	3.18%	—	10,000	—	10,000
The 72-2nd Public bond	Dec 23, 2016	3.41%	—	30,000	—	30,000
The 73-1st Public bond	Mar 17, 2016	2.73%	—	—	—	30,000
The 73-2nd Public bond	Sep 17, 2017	3.16%	—	—	—	20,000
The 74 Public bond	Oct 02, 2017	2.97%	—	—	—	50,000
The 75-1st Public bond	Nov 23, 2015	2.65%	—	—	—	50,000
The 75-2nd Public bond	Nov 21, 2017	2.94%	—	—	—	50,000
Asset backed short-term bond	—	—	—	10,000	—	—
Asset backed short-term bond	—	—	—	10,000	—	—
Asset backed short-term bond	—	—	—	10,000	—	—
Asset backed short-term bond	Feb 27, 2015	2.66%	—	—	—	25,000
Asset backed short-term bond	Jan 13, 2015	2.70%	—	—	—	10,000
Unsecured private convertible bond ³	Jan 20, 2016	2.00%	—	15,000	—	15,000
Unsecured public bond in won	Jan 24, 2016	3.43%	—	30,000	—	30,000
The 16 th unsecured bond . . .	Apr 23, 2015	3.80%	—	80,000	—	80,000
The 1st convertible preferred stock	—	—	—	2,000	—	—
The 2nd convertible preferred stock ³	Oct 17, 2015	—	—	—	—	2,100
The 2nd unsecured convertible bond ³	Sep 30, 2018	2.00%	—	179	—	179
The 32-1st Public bond	Nov 20, 2015	3.19%	—	100,000	—	100,000
The 32-2nd Public bond	Nov 20, 2017	3.33%	—	100,000	—	100,000
The 33rd Public bond	Mar 21, 2018	3.26%	—	53,000	—	53,000
The 28-1st Public bond	—	—	—	50,000	—	—
The 28-2nd Public bond	Apr 05, 2016	5.25%	—	65,000	—	65,000
The 29th Public bond	Sep 05, 2016	4.85%	—	45,000	—	45,000
The 30th Public bond	—	—	—	90,000	—	—
The 31-1st Public bond	Jun 15, 2015	3.73%	—	100,000	—	100,000
The 31-2nd Public bond	Jun 15, 2017	3.98%	—	100,000	—	100,000
The 34th Public bond	Mar 21, 2018	3.21%	—	54,000	—	54,000
The 35th Public bond	—	—	—	50,000	—	—
The 36th Public bond	Jun 21, 2018	2.92%	—	50,000	—	50,000
The 37th Public bond	Jun 21, 2018	2.98%	—	50,000	—	50,000
The 38-1st Public bond	Nov 20, 2015	3.13%	—	40,000	—	40,000

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Type	Maturity	Annual interest rates	2013		2014	
			Foreign currency	Korean won	Foreign currency	Korean won
The 38-2nd Public bond	Nov 20, 2016	3.39%	—	60,000	—	60,000
The 39-1st Public bond	Aug 28, 2017	3.05%	—	—	—	150,000
The 39-2nd Public bond	Aug 28, 2019	3.41%	—	—	—	50,000
The 40-1st Public bond	Oct 31, 2017	2.62%	—	—	—	50,000
The 40-2nd Public bond	Oct 31, 2019	2.94%	—	—	—	50,000
The 8th unsecured convertible bond	—	—	—	19,052	—	—
The 27th Public bond	—	—	—	5,000	—	—
				10,011,994		10,532,441
Less: Current portion				(2,185,017)		(1,597,732)
Discount on bonds				(22,350)		(28,258)
Conversion right adjustment				3,566		1,483
Add: Premium on bonds redemption				(3,987)		12
				<u>₩ 7,804,206</u>		<u>₩ 8,907,946</u>

¹ As of December 31, 2014, the Controlling Company has outstanding notes in the amount of USD 700 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 MTN Program has been suspended since 2007.

² Libor (3M) and CD (91D) are approximately 0.255 % and 2.130 %, respectively, as of December 31, 2014.

³ At the end of the reporting period, the terms and conditions of the convertible bonds are as follows:

Type	Issuers		
	KT Telecop Co., Ltd.	GREEN CAR Co., Ltd (formerly GREEN POINT)	Enswers Inc.
Issue date	Jan 20, 2011	Oct 1, 2013	Apr 18, 2014
Issue price	₩15,000 million	₩ 179 million	₩2,100 million
Coupon rate	2.00%	2.00%	—
Guaranteed margin ratio	4.00%	Compound annual 5.00%	8.00%
Conversion period	From one year after the issue date to bond maturity	From the day succeeding the issue date till bond maturity	From the day succeeding the issue date till bond maturity
Conversion price	₩ 26,000	₩ 27,952	a) If qualified financing is obtained: 75% of stock price b) If qualified financing is not obtained : ₩ 1,191,200

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Short-term borrowings

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

Financial institution	Type	Annual interest rates	2013		2014	
			Foreign Currency	Korean won	Foreign Currency	Korean Won
Shinhan Bank	Commercial papers	2.21%~3.05%	—	₩ 40,000	—	₩ 140,000
	Commercial papers	7.79%	—	—	VND32,000,000	1,667
	Commercial papers ¹	LIBOR(3M)+2.36%	—	—	USD 2,000	2,198
	General loan	3.93%~5.18%	—	81,200	—	101,200
	Credit loan	4.31%~5.50%	—	12,000	—	12,383
		3.35% /Financial bonds(6M)				
	Usance ¹	+1.27%	—	5,000	—	19,000
	Facility loans	3.24%	—	—	—	40,000
Standard Chartered Bank	Secured loans	4.34%	—	—	—	10,000
Samsung Securities	Commercial papers	2.21%	—	15,000	—	50,000
Korea Investment & Securities Co., Ltd.	Commercial papers	2.21%~2.39%	—	—	—	230,000
Woori Bank	Commercial papers	7.79%	—	—	VND61,756,000	3,218
	General loans	4.88%~6.50%	—	500	—	1,246
	Usance	—	—	9,000	—	—
Korea Exchange Bank	Commercial papers	3.39%~4.59%	—	30,000	—	50,000
	Credit loans	5.23%	—	—	—	4,000
	Revolving loan	3.65%	—	—	—	2,000
Kookmin Bank	General loans	3.39%~4.59%	—	1,500	—	3,500
	Facility loans	3.53%	—	—	—	50,000
	Credit loans	5.18%	—	—	—	1,000
	Commercial papers	—	—	10,494	—	25,000
Hanyang Securities	Commercial papers	—	—	50,000	—	—
SK Securities	Commercial papers	—	—	10,000	—	—
Citibank		3.35%(fixed rate) / (91D) +				
	Usance ¹	1.2%(variable rate)	—	10,000	—	11,000
Korea Development Bank	Credit loans	4.86%	—	—	—	10,000
		2.66%~3.41% /Industrial financial debentures(1Y) +				
	Usance ¹	1.28%	—	7,000	—	80,000
IBK Bank	Credit loans	6.15%	—	8,000	—	6,000
NH Investment & Securities	Commercial papers	2.98%	—	10,000	—	25,000
HYUNDAI Securities	Commercial papers	3.09%	—	100,000	—	30,000
Dongbu Securities	Commercial papers	—	—	95,000	—	—
Woori Investment & Securities	Commercial papers	3.60%	—	30,000	—	10,000
Korea Money Brokerage Corporation	Commercial papers	—	—	20,000	—	—
Meritz Securities	Commercial papers	—	—	30,000	—	—
KTB Investment & Securities	Commercial papers	2.21%	—	—	—	70,000
Hana Daetoo Securities Co., Ltd.	Commercial papers	4.88%	—	—	—	5,000
NongHyup Bank	Facility loans	3.49%	—	—	—	50,000
Shinyoung Securities Co., Ltd.	Commercial papers	2.70%~3.50%	—	—	—	55,000
UFJ Bank	LC	1.48%	—	—	JPY 194,236	1,943
Others	General loans	—	—	60,000	—	—
Total				₩634,694		₩1,100,355

1 Interest rates of LIBOR(3M), CD(91D), Bonds issued by Korea Development Bank(1Y) and Bond issued by banks(6M, AAA) are approximately 0.255%, 2.130%, 2.142%, and 2.131%, respectively, as of December 31, 2014.

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Long-term borrowings

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

Financial institution	Type	Annual interest rates	2013		2014	
			Foreign currency	Korean won	Foreign currency	Korean won
Kookmin Bank	Facility loans	—	—	₩ 60,000	—	₩ —
Shinhan Bank	Informatization promotion funds ¹	3.19%	—	6,048	—	1,539
	General loans	3.95%~5.70%	—	20,000	—	21,000
	Facility loans	2.22%~5.23%	—	42,331	—	100,320
Export-Import Bank of Korea	Inter-Korean Cooperation Fund ¹	2.00%	—	6,415	—	5,922
Korea Exchange Bank	General loans	—	USD 2,200	2,322	—	—
	General loans	3.94%~4.18%	—	25,210	—	25,210
National Federation of Fisheries Cooperatives	General loans	4.63%	—	50,000	—	50,000
NH Bank	General loans	3.99%~6.00%	—	60,000	—	58,000
	Facility loans	2.00%~4.68%	—	135,000	—	183
Korea Development Bank	General loans	3.56%~4.91%	—	3,750	—	20,000
	Facility loans	3.13%~4.49%	—	20,000	—	170,000
Industrial Bank of Korea	Facility loans	2.22%~2.61%	—	833	—	167
Samsung Securities	Commercial papers	2.78%~3.08%	—	100,000	—	100,000
HYUNDAI Securities	Commercial papers	2.81%~3.08%	—	179,945	—	160,000
IBK Securities	Commercial papers	2.78%	—	50,000	—	50,000
Shinhan Invest corp	Commercial papers	2.93%	—	39,963	—	40,000
NH INVESTMENT & SECURITIES CO., LTD.	Commercial papers	3.17%	—	—	—	300,000
The Jeonbuk Bank Ltd.	Financial Bond					
	General loans ²	(12M)+1.17%	—	—	—	20,000
	Facility loans	3.55%	—	—	—	30,000
Others	Redeemable convertible preferred stock ³	—	—	53,736	—	56,768
	Other	5.00%	—	4,423	—	243
	Total			859,976 (200,997)		1,209,352 (257,557)
Less: Current portion						
	Net			₩ 658,979		₩ 951,795

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 20 years after a seven-year grace period.

2 Interest rate of Bond issued by banks(12M) is approximately 2.142% as of December 31, 2014.

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3 As of the end of the reporting period, the terms and conditions of the redeemable convertible preferred stocks are as follows:

Type	Issuers				
	Enswers Inc.			SkyLifeTV Co., Ltd. (formerly Korea HD Broadcasting Corp.)	KT Telecop Co., Ltd.
	The A Redeemable convertible preferred stock	The B Redeemable convertible preferred stock	The C Redeemable convertible preferred stock	Redeemable convertible preferred stock	Redeemable convertible preferred stock
Issue date	2008.08.14	2009.11.24	2011.11.30	2010.12.21	2011.1.20
Issue price	₩1,598 millions	₩500 millions	₩10,001 millions	₩950 millions	₩35,000 millions
Issue price (per share)	₩272,000	₩408,400	₩893,400	₩500	₩26,000
Number of share issued	5,875	1,225	11,194	1,900,000	1,346,154
Conversion price (per share)	₩272,000	₩408,400	₩893,400	₩500	₩26,000
Exercisable date of conversion rights	From the issue date to Aug 14, 2018	From the issue date to Nov 24, 2019	From the issue date to Nov 30, 2021	—	From one year after the issue date until exercised date
Redemption price	Issue price + 5% compound annual interest	Issue price + 5% compound annual interest	Issue price + 5% compound annual interest	Issue price + 1% compound annual interest	Issue price of preferred stock not converted + 5% compound annual interest less dividends received
Exercisable date of redemption Rights	From three years after the issue date to Aug 14, 2018	From three years after the issue date to Nov 24, 2019	From three years after the issue date to Nov 30, 2021	From two years after the issue date to exercised date	From five years (Jan 20, 2016) after the issue date up to 3 months

Repayment schedule of the Company's bonds payable and borrowings including the portion of current liabilities as of December 31, 2014, 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	
2015	₩1,112,045	₩ 485,687	₩ 1,597,732	₩1,348,886	₩9,026	₩1,357,912	₩ 2,955,644
2016	1,621,950	387,305	2,009,255	354,576	—	354,576	2,363,831
2017	1,219,900	1,099,200	2,319,100	290,493	—	290,493	2,609,593
2018	1,156,000	392,330	1,548,330	5,723	—	5,723	1,554,053
Thereafter	2,563,384	494,640	3,058,024	301,003	—	301,003	3,359,027
Total	₩7,673,279	₩2,859,162	₩10,532,441	₩2,300,681	₩9,026	₩2,309,707	₩12,842,148

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Book value and fair value of the Company's bonds payable and borrowings as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won) Type	2013		2014	
	Book Value	Fair Value	Book Value	Fair Value
Bonds payable	₩ 9,989,223	₩10,066,124	₩10,505,678	₩10,537,442
Long-term borrowings (Including current borrowings)	859,976	798,827	1,209,352	1,183,645
Short-term borrowings	634,694	634,694	1,100,355	1,100,355
Total	₩11,483,893	₩11,499,645	₩12,815,385	₩12,821,442

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 3.36% ~ 4.28% as of December 31, 2014 (2013: 4.53%).

17. Provisions

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

(in millions of Korean won)	2013			
	Litigation	Asset retirement obligation	Other	Total
Balance at 2013.1.1	₩49,083	₩109,598	₩ 196,850	₩ 355,531
Increase (Transfer)	4,440	1,936	59,462	65,838
Usage	(714)	(1,966)	(143,911)	(146,591)
Reversal	(1,897)	(5,251)	(20,276)	(27,424)
Changes in scope of consolidation	—	962	—	962
Balance at 2013.12.31	₩50,912	₩105,279	₩ 92,125	₩ 248,316
Current portion	35,507	46	79,202	114,755
Non-current portion	15,405	105,233	12,923	133,561

(in millions of Korean won)	2014			
	Litigation	Asset retirement obligation	Other	Total
Balance at 2014.1.1	₩ 50,912	₩105,279	₩ 92,125	₩248,316
Increase (Transfer)	4,574	5,515	61,342	71,431
Usage	(11,988)	(4,022)	(43,285)	(59,295)
Reversal	(23,259)	(9,549)	(9,963)	(42,771)
Changes in scope of consolidation	—	899	(711)	188
Balance at 2014.12.31	₩ 20,239	₩ 98,122	₩ 99,508	₩217,869
Current portion	20,239	718	90,482	111,439
Non-current portion	—	97,404	9,026	106,430

18. Net Defined Benefit Liabilities

The amounts recognized in the statements of financial position are determined as follows:

(in millions of Korean won)	2013	2014
Present value of defined benefit obligations	₩ 1,636,593	₩1,460,957
Fair value of plan assets	(1,050,510)	(867,119)
Liabilities	₩ 586,083	₩ 593,838

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The changes in the defined benefit obligations for the years ended December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013	2014
Beginning	₩1,724,246	₩ 1,636,593
Current service cost	210,466	184,870
Interest expense	57,891	48,863
Benefit paid	(97,956)	(131,796)
Losses on settlements of plan	2,171	666,299
Changes due to settlements of plan ¹	(188,512)	(1,321,683)
Remeasurements:		
Actuarial gains and losses arising from changes in demographic assumptions	81,616	27,745
Actuarial gains and losses arising from changes in financial assumptions	(144,111)	204,847
Actuarial gains and losses arising from experience adjustments	(9,521)	73,819
Changes in scope of Consolidation	303	71,400
Ending	<u>₩1,636,593</u>	<u>₩ 1,460,957</u>

¹ The payment of the benefits for voluntary retirement amounts to ₩1,215,407 million in 2014.

Changes in the fair value of plan assets for the years ended December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013	2014
Beginning	₩1,175,003	₩1,050,510
Interest income	42,964	30,966
Remeasurements:		
Return on plan assets (excluding amounts included in interest income)	2,612	(5,775)
Benefits paid	(57,866)	(61,085)
Changes due to settlements of plan ¹	(138,220)	(381,501)
Employer contributions	26,161	182,904
Changes in scope of consolidation	(144)	51,100
Ending	<u>₩1,050,510</u>	<u>₩ 867,119</u>

¹ The payment from the plan assets for voluntary retirement amounts to ₩307,268 million in 2014.

Amounts recognized in the statement of income for the years ended December 31, 2012, 2013 and 2014, are as follows:

(in millions of Korean won)	2012	2013	2014
Current service cost	₩206,389	₩210,466	₩184,870
Net Interest cost	16,369	14,927	17,897
Losses on settlements	(3,630)	2,171	666,299
Transfer out	(8,763)	(10,502)	(6,173)
Total expenses	<u>₩210,365</u>	<u>₩217,062</u>	<u>₩862,893</u>

Principal actuarial assumptions used are as follows:

	2012.12.31	2013.12.31	2014.12.31
Discount rate	3.13% ~ 4.10%	3.10% ~ 4.05%	2.37% ~ 3.80%
Future salary increase	3.00% ~ 8.10%	2.10% ~ 8.44%	2.00% ~ 8.10%

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As of December 31, 2014, total amounts of the plan assets are invested in principal and interest guaranteed financial instruments.

The sensitivity of the defined benefit obligations as of December 31, 2014, to changes in the weighted principal assumptions is:

(in percentage, in millions of Korean won)	Effect on defined benefit obligation		
	Changes in principal assumption	Increase in principal assumption	Decrease in principal assumption
Discount rate	0.5% point	₩(67,774)	₩ 71,340
Salary growth rate	0.5% point	68,691	(65,861)

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

The Company annually reviews funding levels of plan assets and has plan asset policies that require maintaining the funding level of the Company equal to or more than the level required under the Employee Retirement Benefit Security Act. Expected contributions to post-employment benefit plans for the year ending December 31, 2015, are ₩274,410 million.

Expected maturity analysis of undiscounted pension benefits as of December 31, 2014, is as follows:

(in millions of Korean won)	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Pension benefits	₩125,308	₩96,948	₩366,005	₩4,122,574	₩4,710,835

The weighted average duration of the defined benefit obligations is 8.9 years.

19. Defined Contribution Plan

Recognized expense related to the defined contribution plan for the year ended December 31, 2014, is ₩25,423 million (2012: ₩1,703 million, 2013: ₩23,857 million).

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20. Commitments and Contingencies

As of December 31, 2014, 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	1,492,903	5,903
Commercial papers Factoring	Korea Exchange Bank and others	KRW	1,015,000	835,000
Collateralized loan on accounts receivable-trade	Kookmin Bank and others	KRW	746,000	112,221
FX forward trading commitment	Shinhan Bank	USD	11,500	—
Plus electronic notes Payable	Industrial Bank of Korea	KRW	50,000	1,995
Loan on information and communications fund ...	Shinhan Bank	KRW	1,539	1,539
Loans for working capital	Industrial Bank of Korea and others	KRW	674,000	219,000
Comprehensive credit line	Korea Exchange Bank	KRW	15,000	11,687
Green energy factoring	Shinhan Bank	KRW	279	279
Facility loans	Korea Development Bank and others	KRW	390,000	348,167
Comprehensive credit line	Shinhan Bank	KRW	50,000	20,000
Credit line for call loan	Yuantia Securities Korea Co., Ltd.	KRW	120,000	—
Total		KRW	4,554,721	1,555,791
		USD	11,500	—

As of December 31, 2014, guarantees received from financial institutions are as follows:

(in millions of Korean won and thousands of foreign currencies)	Financial institution	Currency	Limit
Performance guarantee	Seoul Guarantee Insurance and others	KRW	85,291
		USD	5,393
		DZD ¹	25,863
Guarantee for import letters of credit	Kookmin Bank and others	USD	73,980
Guarantee for payment in foreign currency	Korea Exchange Bank and others	PLN ²	23,000
		USD	43,573
Guarantee for payment in local currency	Woori Bank and others	KRW	12,338
Comprehensive guarantee for payment in foreign currency	Kookmin Bank	KRW	16,488
Warranty guarantee	Seoul Guarantee Insurance	KRW	948
Guarantee for advances received	Export-Import Bank of Korea	DZD ¹	77,589
		USD	2,925
Guarantees for accounts receivable from the handset sales	Seoul Guarantee Insurance	KRW	674,768
Bid guarantee	Korea Software Financial Cooperative	KRW	23,214
Performance guarantee /Warranty guarantee	Korea Software Financial Cooperative	KRW	207,681
Prepayment and other guarantee	Korea Software Financial Cooperative and others	KRW	55,486
Guarantees for licensing	Seoul Guarantee Insurance	KRW	11,666
Guarantees for deposits	Seoul Guarantee Insurance	KRW	4,302
		KRW	1,092,182
	Total	USD	125,871
		DZD ⁽¹⁾	103,452
		PLN ⁽²⁾	23,000

¹ Algerian Dinar.

² Polish Zloty.

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Details of collaterals that KT Capital Co., Ltd., a subsidiary, is provided with by third parties as of December 31, 2014, are as follows:

<u>(In millions of Korean won)</u>	<u>Details</u>	<u>Amounts</u>
Credits and others	Movables, real-estate, and other	₩863,176

As of December 31, 2014, guarantees provided by the Company for a third party, are as follows:

<u>(in millions of Korean won)</u>	<u>Creditor</u>	<u>Limit</u>	<u>Used amount</u>	<u>Period</u>
Individuals with the right of ownership of Gyeryeong Rishivill II Apartment	Shinhan Bank	₩50,000	₩23,375	Jun 10, 2014 ~ May 31, 2016

As of December 31, 2014, based on the investors' agreement, the Company has an obligation to provide funding to Smart Channel Co., Ltd. if Smart Channel Co., Ltd. is unable to fulfill its obligation. The Company pledged investment securities in Smart Channel Co., Ltd. as collateral (Note 14). Furthermore, the Company provided allowance for doubtful receivables of ₩49,362 million against other receivables from Smart Channel Co., Ltd.

The Controlling Company is jointly and severally obligated with KT Sat Co., Ltd. to pay KT Sat Co., Ltd.'s liabilities prior to spin-off. As of December 31, 2014, the Company and KT Sat Co., Ltd. are jointly and severally liable for reimbursement of ₩7,801 million.

For the year ended December 31, 2014, the Company made agreements with the Securitization Specialty Companies Olleh KT Thirteenth to Eighteenth Securitization Specialty Co., Ltd. (2013: Olleh KT Seventh to Twelfth Securitization Specialty Co., Ltd.), and disposed of part of its trade receivables related to handset sales (in 2014 : ₩2,133,546 million, in 2013 : ₩2,684,017 million). Loss on the disposal of trade receivables ₩16,373 million (2013 : ₩7,673 million) was recognized. The Company also made asset management agreements with each securitization specialty company and will receive the related management fees.

As of December 31, 2014, the Company is a defendant in 225 lawsuits, with an aggregate claim amount of ₩230,006 million (2013: ₩159,434 million). As of December 31, 2014, litigation provisions of ₩20,239 million for various pending lawsuits and unasserted claims are recorded as liabilities for potential loss in the ordinary course of business. The Company cannot yet predict the final outcomes of the cases because these matters involve significant uncertainties related to the legal theory or the nature of the claims as well as the complexity of the facts.

On March 6, 2014, the website of the Controlling Company was accessed by hackers and personal information of the customers was stolen. There are lawsuits against the Controlling Company over this breach seeking damages of approximately ₩6,661 million. The resolution of the lawsuit cannot yet be reasonably predicted because it involves significant uncertainties at early stages. Also, there may be more lawsuits filed against the Company in the future. However, the size and result of any potential lawsuits cannot yet be reasonably predicted because it is not sure yet whether the customers whose personal information was stolen would litigate or not.

According to the financial and other covenants included in certain bonds and borrowings, the Company is required to maintain certain financial ratios such as debt to equity ratio, use the funds for the designated purpose and report to the creditors periodically. The covenant also contains restriction on provision of additional collaterals and disposal of certain assets. As of December 31, 2014, the Company is in compliance with the related covenants.

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Asia Broadcast Satellite Holdings Ltd(ABS), sued the Controlling Company and its subsidiary KT Sat at The International Court of Arbitration of the International Chamber of Commerce on December 31, 2014, on the ownership and compensation of damages due to the sales contract of the satellite KOREASAT. In addition, ABS sued the Controlling Company and its subsidiary KT Sat at the International Centre for Dispute Resolution of the American Arbitration Association on December 24, 2013, on the compensation of damages of the breach of entrustment contract. Currently, the mediator selection process for the Controlling Company, KT Sat and ABS is complete, and the process of arbitration is in progress. The final outcome of this arbitration 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, 2013 and 2014 are as follows:

(in millions of Korean won)	2013	2014
Acquisition costs	₩ 99,702	₩ 94,247
Accumulated depreciation	(27,980)	(39,032)
Net balance	<u>₩ 71,722</u>	<u>₩ 55,215</u>

As of December 31, 2014, the Company recognizes financial lease assets as other property and equipment. The related depreciation amounted to ₩19,560 million (2013: ₩11,483 million) for the year ended December 31, 2014.

Details of future minimum lease payments as of December 31, 2013 and 2014 under finance lease contracts are summarized below:

(in millions of Korean won)	2013	2014
Total amount of minimum lease payments		
Within one year	₩ 22,498	₩22,516
From one year to five years	52,877	37,382
Total	<u>₩ 75,375</u>	<u>₩59,898</u>
Unrealized interest expense	7,166	4,891
Net amount of minimum lease payments		
Within one year	19,486	20,155
From one year to five years	48,723	34,852
Total	<u>₩ 68,209</u>	<u>₩55,007</u>

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Operating Lease

Details of future minimum lease payments as of December 31, 2013 and 2014, under operating lease contracts are summarized below:

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Within one year	₩ 78,245	₩ 77,727
From one year to five years	308,292	312,305
Thereafter	246,632	165,799
Total	<u>₩633,169</u>	<u>₩555,831</u>

Operating lease expenses incurred for the years ended December 31, 2012, 2013 and 2014 amounted to ₩61,201 million, ₩77,657 million, and ₩79,359 million, respectively.

The Company as the Lessor

Finance Lease

Details of finance lease assets as of December 31, 2013, are as follows:

<u>(in millions of Korean won)</u>	<u>Minimum lease payments</u>	<u>Gross investment in the lease</u>	<u>Unaccrued interest</u>	<u>Net investment in the lease</u>
Within one year	₩337,804	₩337,804	₩(38,779)	₩299,025
From one year to five years	454,542	454,542	(32,922)	421,620
Thereafter	10,395	10,395	(913)	9,482
Total	<u>₩802,741</u>	<u>₩802,741</u>	<u>₩(72,614)</u>	<u>₩730,127</u>

Details of finance lease assets as of December 31, 2014, are as follows:

<u>(in millions of Korean won)</u>	<u>Minimum lease payments</u>	<u>Gross investment in the lease</u>	<u>Unaccrued interest</u>	<u>Net investment in the lease</u>
Within one year	₩286,570	₩286,570	₩(20,794)	₩265,776
From one year to five years	363,277	363,277	(24,116)	339,161
Thereafter	874	874	(65)	809
Total	<u>₩650,721</u>	<u>₩650,721</u>	<u>₩(44,975)</u>	<u>₩605,746</u>

Details of bad debts allowance for finance lease receivables as of December 31, 2013 and 2014, are as follows:

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Within one year	₩ 4,817	₩ 6,794
From one year to five years	15,245	14,412
Thereafter	128	127
Total	<u>₩20,190</u>	<u>₩21,333</u>

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Operating Lease

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

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Acquisition costs	₩2,073,592	₩2,698,249
Accumulated depreciation	(606,148)	(754,531)
Net balance	<u>₩1,467,444</u>	<u>₩1,943,718</u>

Details of future minimum lease payments as of December 31, 2013 and 2014, under operating lease contracts are summarized below:

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Within one year	₩203,014	₩ 547,194
From one year to five years	687,162	673,117
Total	<u>₩890,176</u>	<u>₩1,220,311</u>

22. Capital Stock

As of December 31, 2013 and 2014, the Company's number of authorized shares is one billion.

	<u>2013</u>			<u>2014</u>		
	<u>Number of outstanding shares</u>	<u>Par value per share (Korean won)</u>	<u>Common stock (in millions of Korean won)</u>	<u>Number of outstanding shares</u>	<u>Par value per share (Korean won)</u>	<u>Common stock (in millions of Korean won)</u>
Common stock ¹	261,111,808	₩5,000	₩1,564,499	261,111,808	₩5,000	₩1,564,499

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

23. Retained Earnings

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

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Legal reserve ¹	₩ 782,249	₩ 782,249
Voluntary reserves ²	4,911,362	4,911,362
Unappropriated retained earnings	4,325,778	2,874,788
Total	<u>₩10,019,389</u>	<u>₩8,568,399</u>

- 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.
- ² The provision of research and development of human is separately accumulated with tax reserve fund during earned surplus disposal by Tax Reduction and Exemption Control Act of Korea. Reversal of this provision can be paid out as dividends according to related tax law.

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24. Accumulated Other Comprehensive Income and Other Components of Equity

As of December 31, 2013 and 2014, the details of the Controlling Company's accumulated other comprehensive income are as follows:

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Investments in associates and joint ventures	₩(12,681)	₩ (8,955)
Loss on derivatives	(9,337)	(37,158)
Available-for-sale	55,836	76,725
Foreign currency translation adjustment	(9,280)	(4,822)
Total	<u>₩ 24,538</u>	<u>₩ 25,790</u>

Changes in accumulated other comprehensive income for the years ended December 31, 2013 and 2014, are as follows:

2013				
<u>(in millions of Korean won)</u>	<u>Beginning</u>	<u>Increase / decrease</u>	<u>Reclassification as gain or loss</u>	<u>Ending</u>
Investments in associates and joint ventures	₩(15,251)	₩ 2,570	₩ —	₩(12,681)
Gain or loss on derivatives	(4,626)	(71,778)	67,067	(9,337)
Available-for-sale	23,738	25,814	6,284	55,836
Foreign currency translation adjustment	(2,536)	(6,744)	—	(9,280)
Total	<u>₩ 1,325</u>	<u>₩(50,138)</u>	<u>₩73,351</u>	<u>₩ 24,538</u>

2014				
<u>(in millions of Korean won)</u>	<u>Beginning</u>	<u>Increase / decrease</u>	<u>Reclassification as gain or loss</u>	<u>Ending</u>
Investments in associates and joint ventures	₩(12,681)	₩ 3,726	₩ —	₩ (8,955)
Gain or loss on derivatives	(9,337)	16,974	(44,795)	(37,158)
Available-for-sale	55,836	20,889	—	76,725
Foreign currency translation adjustment	(9,280)	4,458	—	(4,822)
Total	<u>₩ 24,538</u>	<u>₩46,047</u>	<u>₩(44,795)</u>	<u>₩ 25,790</u>

As of December 31, 2013 and 2014, the Company's other components of equity are as follows:

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Treasury stock ¹	₩ (922,175)	₩ (866,316)
Loss on disposal of treasury stock ²	(2,170)	(21,847)
Share-based payments	(9,609)	3,627
Others ³	(386,989)	(376,173)
Total	<u>₩(1,320,943)</u>	<u>₩(1,260,709)</u>

¹ During the current period, the Company disposed of 1,059,060 shares (2013: 167,842 shares) of treasury stock

² The amounts directly reflected in equity is ₩9 million (2013: ₩693 million) as of December 31, 2014.

³ Profit and loss incurred from transactions with non-controlling interest and investment difference incurred from change in proportion of subsidiaries are included.

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As of December 31, 2013 and 2014, the details of treasury stock are as follows:

	2013	2014
Number of shares	17,308,160	16,249,100
Amounts (In millions of Korean won)	₩ 922,175	₩ 866,316

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 details of share-based payments as of December 31, 2014, are as follows:

	8th
Grant date	2014.04.24
Grantee	CEO, inside directors, outside directors, executives
Vesting conditions	Service condition: 1 year Non-market performance condition: achievement of performance
Fair value per option (in Korean won)	₩32,500
Total compensation costs (in Korean won)	₩3,627 million
Estimated exercise date (exercise date)	During 2015
Valuation method	Fair value method

The changes in the number of stock options and the weighted-average exercise price, as of December 31, 2013 and 2014, are as follows:

	2013						Number of shares exercisable
	Beginning	Granted	Expired	Forfeited	Exercised ¹	Ending	
6th grant	255,110	—	154,137	—	100,973	—	—
7th grant	—	288,459	—	6,231	—	282,228	—
Total	<u>255,110</u>	<u>288,459</u>	<u>154,137</u>	<u>6,231</u>	<u>100,973</u>	<u>282,228</u>	<u>—</u>

	2014						Number of shares exercisable
	Beginning	Granted	Expired	Forfeited	Exercised ¹	Ending	
7th grant	282,228	—	278,175	—	4,053	—	—
8th grant	—	251,833	—	—	—	251,833	—
Total	<u>282,228</u>	<u>251,833</u>	<u>278,175</u>	<u>—</u>	<u>4,053</u>	<u>251,833</u>	<u>—</u>

¹ The weighted average price of common stock at the time of exercise during 2014 was ₩32,500 (2013: ₩40,300).

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26. Operating Revenues

Operating revenues for the years ended December 31, 2012, 2013 and 2014, are as follows:

(in millions of Korean won)	2012	2013	2014
Sales of services	₩19,266,545	₩19,663,014	₩19,991,656
Sale of goods	4,589,830	4,065,659	3,477,631
Others ^{1,2,3}	787,397	329,208	258,091
Operating revenues	<u>₩24,643,772</u>	<u>₩24,057,881</u>	<u>₩23,727,378</u>

- 1 Disposed land and building (carrying amount: ₩93,250 million) for ₩232,000 million to AJU-KTM private funding real-estate investment trust No.1 and leased them in September 2012. The Company recognized gain on disposal of property and equipment of ₩138,750 million and accounted for as an operating lease.
- 2 Disposed land and building (carrying amount: ₩32,232 million) for ₩144,100 million to K-REALTY CR-REIT 2 and leased them in November 2012. The Company recognized gain on disposal of property and equipment of ₩111,868 million and accounted for as an operating lease.
- 3 Off-plan sales amounting to ₩45,010 million, which should have been recorded as a deduction of operating revenue in 2012, was recorded as a deduction of operating revenue in 2013.

27. Operating Expenses

Operating expenses for the years ended December 31, 2012, 2013 and 2014, are as follows:

(in millions of Korean won)	2012	2013 ²	2014
Salaries and wages	₩ 3,096,766	₩ 3,288,942	₩ 3,999,952
Depreciation	2,894,400	3,107,792	3,186,775
Amortization of intangible assets	379,678	458,382	588,579
Commissions ¹	3,655,057	3,575,488	4,022,427
Interconnection charges	901,314	885,479	797,329
International interconnection fee	309,955	265,467	238,404
Purchase of inventories	4,851,295	3,565,948	3,402,529
Changes of inventories	(259,078)	320,971	220,791
Service Cost	1,264,218	1,834,425	1,544,806
Utilities	271,277	309,497	313,760
Taxes and Dues	299,567	257,931	241,696
Rent	371,030	432,543	429,644
Insurance premium	243,666	313,056	274,517
Installation fee	291,057	260,498	317,684
Advertising expenses	150,399	161,013	159,645
Research and development expenses	153,171	171,461	192,022
Card service cost	2,771,383	2,702,653	2,883,060
Others	1,318,518	1,822,951	1,576,161
Total	<u>₩22,963,673</u>	<u>₩23,734,497</u>	<u>₩24,389,781</u>

- 1 The sales commission is included in commissions
- 2 ₩32,835 million of Operating expenses related to off-plan sales, which should have been recorded as a deduction of operating expenses in 2012, was recorded as a deduction of operating expenses in 2013.

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Details of salaries and wages for the years ended December 31, 2012, 2013 and 2014, are as follows:

(in millions of Korean won)	2012	2013	2014
Short-term employee benefits	₩2,885,024	₩3,031,435	₩2,703,266
Post-employment benefits (Defined benefit plan)	210,365	217,062	862,893
Post-employment benefits (Defined contribution plan)	1,703	23,857	25,423
Post-employment benefits (Others)	25,762	12,506	404,743
Share-based payment	3,912	4,082	3,627
Total	<u>₩3,096,766</u>	<u>₩3,288,942</u>	<u>₩3,999,952</u>

28. Financial Income and Expenses

Details of financial income for the years ended December 31, 2012, 2013 and 2014 are as follows:

(in millions of Korean won)	2012	2013	2014
Interest income	₩203,214	₩108,794	₩ 80,840
Gain on foreign currency transactions	20,159	37,371	37,246
Gain on foreign currency translation	266,623	106,135	34,871
Gain on settlement of derivatives	2,824	13,878	2,134
Gain on valuation of derivatives	118	627	93,235
Others	5,719	12,544	6,574
Total	<u>₩498,657</u>	<u>₩279,349</u>	<u>₩254,900</u>

Details of financial expenses for the years ended December 31, 2012, 2013 and 2014 are as follows:

(in millions of Korean won)	2012	2013	2014
Interest expenses	₩472,917	₩450,302	₩501,052
Loss on foreign currency transactions	17,974	31,611	26,076
Loss on foreign currency translation	7,249	6,518	126,233
Loss on settlement of derivatives	7,804	16,384	35,240
Loss on valuation of derivatives	241,358	105,691	25,357
Loss on disposal of trade receivables	15,809	8,009	16,464
Impairment loss on available-for-sale financial assets	3,401	5,052	70,022
Others	15,481	23,933	17,999
Total	<u>₩781,993</u>	<u>₩647,500</u>	<u>₩818,443</u>

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29. Deferred Income Tax and Income Tax Expense

The analyses of deferred tax assets and deferred tax liabilities as of December 31, 2013 and 2014, are as follows:

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	₩ 396,831	₩ 273,120
Deferred tax assets to be recovered after more than 12 months	979,277	1,416,347
	<u>1,376,108</u>	<u>1,689,467</u>
Deferred tax liabilities		
Deferred tax liability to be recovered within 12 months	(1,015)	(1,058)
Deferred tax liability to be recovered after more than 12 months	(837,614)	(753,581)
	<u>(838,629)</u>	<u>(754,639)</u>
Deferred tax assets after offset	₩ 706,977	₩1,078,792
Deferred tax liabilities after offset	<u>₩ 169,498</u>	<u>₩ 143,964</u>

The gross movements on the deferred income tax account for the years ended December 31, 2013 and 2014, are calculated as follows:

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Beginning	₩473,475	₩537,479
Charged (credited) to the income statement	98,680	317,115
Charged (credited) to other comprehensive income	(34,676)	75,104
Changes in scope of consolidation	—	5,130
Ending	<u>₩537,479</u>	<u>₩934,828</u>

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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)	2013			
	Beginning	Income statement	Other comprehensive income	Ending
Deferred tax liabilities				
Derivative financial assets	₩ (297)	₩ (116)	₩ —	₩ (413)
Available-for-sale financial assets	(10,669)	(5,198)	(17,985)	(33,852)
Investment in joint venture and associates	(1,652)	(30,140)	(780)	(32,572)
Depreciation	(31,898)	(38,229)	—	(70,127)
Advanced depreciation provision	(241,265)	3,035	—	(238,230)
Deposits for severance benefits	(297,116)	29,963	(10)	(267,163)
Accrued income	(1,673)	65	—	(1,608)
Prepaid expenses	220	70	—	290
Reserve for technology and human resource development	(64,570)	20,681	—	(43,889)
Others	(144,650)	(6,415)	—	(151,065)
	₩ (793,570)	₩ (26,284)	₩ (18,775)	₩ (838,629)
Deferred tax assets				
Derivatives	₩ 21,719	₩ 9,377	₩ 1,499	₩ 32,595
Allowance for doubtful accounts	139,276	13,538	—	152,814
Inventory valuation	302	1	—	303
Contribution for construction	27,132	(6)	—	27,126
Accrued expenses	27,713	27,576	—	55,289
Provisions	62,696	(28,976)	—	33,720
Property and equipment	229,253	8,710	—	237,963
Retirement benefit obligations	320,909	16,263	(18,055)	319,117
Withholding of facilities expenses	8,861	(521)	—	8,340
Accrued payroll expenses	32,185	14,536	—	46,721
Deduction of installment receivables	11,524	(4,479)	—	7,045
Present value discount	14,900	(9,931)	—	4,969
Assets retirement obligation	18,761	485	—	19,246
Gain or loss foreign currency translation	20,727	(10,491)	—	10,236
Deferred revenue	66,828	(2,389)	—	64,439
Real-estate sales	694	4,720	—	5,414
Tax credit carryforwards	150,334	14,067	—	164,401
Foreign operation translation difference	2,507	—	655	3,162
Others	110,724	72,484	—	183,208
	₩1,267,045	₩124,964	₩(15,901)	₩1,376,108
Net balance ¹	₩ 473,475	₩ 98,680	₩(34,676)	₩ 537,479

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(in millions of Korean won)	2014				
	Beginning	Income statement	Other comprehensive income	Changes in scope of consolidation	Ending
Deferred tax liabilities					
Derivative financial assets	₩ (413)	₩ (118)	₩ —	₩ 109	₩ (422)
Available-for-sale financial assets	(33,852)	(71)	(7,076)	183	(40,816)
Investment in joint venture and associates	(32,572)	(10,986)	(1,120)	—	(44,678)
Advanced depreciation provision	(238,230)	100	—	—	(238,130)
Depreciation	(70,127)	17,889	—	(145)	(52,383)
Deposits for severance benefits	(267,163)	66,449	—	(4,272)	(204,986)
Accrued income	(1,608)	(67)	—	—	(1,675)
Prepaid expenses	290	128	—	9	427
Reserve for technology and human resource development	(43,889)	21,252	—	—	(22,637)
Others	(151,065)	9,790	—	(8,064)	(149,339)
	<u>₩ (838,629)</u>	<u>₩ 104,366</u>	<u>₩ (8,196)</u>	<u>₩ (12,180)</u>	<u>₩ (754,639)</u>
Deferred tax assets					
Derivatives	₩ 32,595	₩ (23,298)	₩ 8,877	₩ —	₩ 18,174
Allowance for doubtful accounts	152,814	(10,434)	—	426	142,806
Inventory valuation	303	(106)	—	(216)	(19)
Contribution for construction	27,126	(5,086)	—	—	22,040
Accrued expenses	55,289	(7,719)	—	3,057	50,627
Provisions	33,720	(5,232)	—	(158)	28,330
Property and equipment	237,963	1,720	—	—	239,683
Retirement benefit obligations	319,117	(101,742)	75,549	4,573	297,497
Withholding of facilities expenses	8,340	(531)	—	—	7,809
Accrued payroll expenses	46,721	(26,121)	—	(824)	19,776
Deduction of installment receivables	7,045	(2,735)	—	—	4,310
Present value discount	4,969	(3,196)	—	(5)	1,768
Assets retirement obligation	19,246	(961)	—	77	18,362
Gain or loss foreign currency translation	10,236	6,850	—	(106)	16,980
Deferred revenue	64,439	167	—	43	64,649
Real-estate sales	5,414	(4,542)	—	—	872
Tax credit carryforwards	164,401	38,877	—	—	203,278
Foreign operation translation difference	3,162	—	(1,126)	—	2,036
Tax loss carryforward	—	411,755	—	—	411,755
Others	183,208	(54,917)	—	10,443	138,734
	<u>₩ 1,376,108</u>	<u>₩ 212,749</u>	<u>₩ 83,300</u>	<u>₩ 17,310</u>	<u>₩ 1,689,467</u>
Net balance ¹	<u>₩ 537,479</u>	<u>₩ 317,115</u>	<u>₩ 75,104</u>	<u>₩ 5,130</u>	<u>₩ 934,828</u>

- 1 Deferred tax liabilities, amounting to ₩2,232 million (2013: Deferred tax liabilities of ₩1,680 million) that are related to the tax receivable of certain subsidiaries' undistributed profit, are not recognized as of December 31, 2014. This undistributed profit is permanently reinvested. As of December 31, 2014, temporary difference of unrecognized deferred tax liabilities is ₩22,241 million (2013: ₩143,483 million).

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The tax impacts recognized directly to equity as of December 31, 2012, 2013 and 2014 are as follows:

(in millions of Korean won)	2012			2013			2014		
	Before recognition	Tax effect	After recognition	Before recognition	Tax effect	After recognition	Before recognition	Tax effect	After recognition
Available-for-sale valuation gain (loss)	₩ 25,181	₩ (6,094)	₩ 19,087	₩ 74,317	₩ (17,985)	₩ 56,332	₩ 29,239	₩ (7,076)	₩ 22,163
Hedge instruments valuation gain (loss)	33,743	(8,166)	25,577	(6,195)	1,499	(4,696)	(36,682)	8,877	(27,805)
Remeasurements from net defined benefit liabilities	(172,153)	41,661	(130,492)	74,648	(18,065)	56,583	(312,186)	75,549	(236,637)
Shares of gain (loss) of joint ventures and associates	(13,009)	3,148	(9,861)	3,221	(780)	2,441	4,628	(1,120)	3,508
Foreign operation translation difference	(8,766)	2,121	(6,645)	(2,708)	655	(2,053)	4,652	(1,126)	3,526
Total	<u>₩(135,004)</u>	<u>₩32,670</u>	<u>₩(102,334)</u>	<u>₩143,283</u>	<u>₩(34,676)</u>	<u>₩108,607</u>	<u>₩(310,349)</u>	<u>₩75,104</u>	<u>₩(235,245)</u>

Details of income tax expense (benefit) for the years ended December 31, 2012, 2013 and 2014 are calculated as follows:

(in millions of Korean won)	2012	2013	2014
Current income tax expenses	₩302,278	₩148,259	₩ 50,780
Impact of change in deferred taxes	(24,409)	(98,680)	(317,115)
Income tax expense (benefit)	<u>₩277,869</u>	<u>₩ 49,579</u>	<u>₩(266,335)</u>

	2012	2013	2014
Loss before income tax (benefit)	₩1,414,842	₩(38,166)	₩(1,207,748)
Statutory income tax (benefit)	₩ 342,392	₩ (9,236)	₩ (292,275)
Tax effect			
Income not taxable for taxation purposes	(1,407)	(25,130)	(44,145)
Non deductible expenses	39,136	87,220	62,127
Tax credit	(83,311)	(15,673)	(39,505)
Additional payment of income taxes	59,755	(5,910)	1,079
Tax effect and adjustment on consolidation	—	(4,251)	3,949
Derecognition in deferred tax income	(55,006)	10,815	(3,878)
Others	(23,690)	11,744	46,313
Income tax expense (benefit)	<u>₩ 277,869</u>	<u>₩ 49,579</u>	<u>₩ (266,335)</u>

30. Earnings Per Share

Basic earnings per share is calculated by dividing the profit from 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.

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Basic earnings per share from operations for the years ended December 31, 2012, 2013 and 2014 is calculated as follows:

	2012	2013	2014
Profit (loss) from continuing operations attributable to common stock (in millions of Korean won)	₩ 1,075,694	₩ (189,931)	₩ (1,030,240)
Profit (loss) from discontinued operations attributable to common stock (in millions of Korean won)	(29,567)	—	—
	<u>1,046,127</u>	<u>(189,931)</u>	<u>(1,030,240)</u>
Weighted average number of common stock outstanding	243,517,103	243,737,431	244,433,771
Basic earnings (loss) per share	₩ 4,296	₩ (779)	₩ (4,215)
Basic earnings (loss) per share from continuing operations (in Korean won)	4,417	(779)	(4,215)
Basic earnings (loss) per share from discontinued operations	(121)	—	—

Diluted earnings per share from 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 operations for the years ended December 31, 2012 and 2013, 2014 is calculated as follows:

	2012	2013	2014
Adjusted Profit (loss) from continuing operations attributable to common stock (in millions of Korean won)	₩ 1,075,694	₩ (190,485)	₩ (1,030,253)
Adjusted Profit (loss) from discontinued operations attributable to common stock (in millions of Korean won)	(29,567)	—	—
	<u>₩ 1,046,127</u>	<u>₩ (190,485)</u>	<u>₩ (1,030,253)</u>
Number of dilutive potential common shares outstanding	23,851	—	—
Weighted-average number of common shares outstanding and dilutive common shares	243,540,954	243,737,431	244,443,771
Diluted earnings (loss) per share (in Korean won)	4,296	(782)	(4,215)
Diluted earnings (loss) per share from continuing operations (in Korean won)	4,417	(782)	(4,215)
Diluted earnings (loss) per share from discontinued operations (in Korean won)	(121)	—	—

31. Dividend

The dividends paid by the Company in 2012, 2013 and 2014 were ₩486,602 million (₩2,000 per share) and ₩487,445 million (₩2,000 per share), ₩195,112 million (₩800 per share), respectively. The Company has no plan to propose dividends for the year ended December 31, 2014, and no dividends were proposed at the shareholders' meeting on March 27, 2015.

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32. Cash Generated from Operations

Cash flows from operating activities for the years ended December 31, 2012, 2013 and 2014, are as follows:

<u>(in millions of Korean won)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
1. Profit (loss) for the year	₩ 1,105,439	₩ (87,745)	₩ (941,413)
2. Adjustments to reconcile net income			
Income tax expenses (income)	277,869	49,579	(266,335)
Interest income	(387,396)	(279,392)	(237,975)
Interest expense	589,727	548,129	578,210
Dividends income	(6,370)	(20,841)	(15,007)
Depreciation	2,925,170	3,141,846	3,242,346
Amortization of intangible assets	388,663	478,902	612,418
Provision for severance benefits	219,128	227,564	869,066
Bad debt expenses	150,389	189,665	231,934
Gain from jointly controlled entities and associates	(24,308)	(10,222)	(24,361)
Loss (gain) on disposal of jointly controlled entities and associates	(125,754)	1,254	8,036
Impairment loss on jointly controlled entities and associates	3,202	6,006	—
Loss on disposal of subsidiaries	—	—	11,028
Loss (gain) on disposal of property and equipment	(407,485)	393,567	133,374
Loss (gain) on disposal of intangible assets	(1,402)	52,008	17,528
Loss on impairment of intangible assets	6,115	36,207	87,275
Loss (gain) on foreign currency translation	(259,374)	(99,617)	91,362
Loss (gain) on valuation of derivatives	242,979	105,248	(34,011)
Impairment losses on available for sale financial assets	3,401	5,052	70,022
Loss (gain) on disposal of available for sale financial assets	(4,830)	(2,339)	13,495
Others	(94,987)	(56,620)	(26,101)
3. Changes in operating assets and liabilities			
Decrease in trade receivables	1,848,011	938,495	13,008
Decrease (increase) in other receivables	(533,319)	(7,194)	170,497
Decrease (increase) in loans receivable	47,990	(156,418)	47,044
Decrease in finance lease receivables	130,987	147,735	138,208
Decrease (increase) in other current assets	(60,274)	40,905	271,475
Increase in other non-current assets	(26,719)	(762,032)	(1,200,843)
Decrease (increase) in inventories	(286,513)	169,567	301,210
Increase (decrease) in trade payables	177,577	(145,363)	(417,944)
Increase (decrease) in other payables	948,480	(69,265)	(260,421)
Increase (decrease) in other current liabilities	(48,256)	222,609	19,010
Increase (decrease) in other non-current liabilities	(147,820)	(40,999)	38,030
Increase (decrease) in provisions	(86,715)	(150,457)	26,029
Increase (decrease) in deferred revenue	153,034	(66,519)	1,359
Decrease (increase) in plan assets	(165,755)	249,102	238,987
Payment of severance benefits	(111,192)	(371,157)	(1,427,229)
4. Net cash provided by operating activities (1+2+3)	<u>₩ 6,439,692</u>	<u>₩ 4,677,260</u>	<u>₩ 2,379,311</u>

Significant transactions not affecting cash flows for the years ended December 31, 2012, 2013 and 2014 are as follows:

<u>(in millions of Korean won)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Reclassification of the current portion of bonds payable	₩2,157,522	₩1,791,454	₩1,805,553
Reclassification of construction-in-progress to property and equipment	3,142,858	2,314,925	2,478,164
Reclassification of accounts payable from property and equipment	68,766	181,816	310,270
Reclassification of accounts payable from intangible assets	—	567,550	179,395
Reclassification of payable from defined benefit liability	—	(84,689)	26,250
Reclassification of payable from plan assets	—	(79,177)	20,695
Exercise of convertible bonds	—	—	19,052

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33. Segment Information

The Company's operating segments are as follows:

<u>Details</u>	<u>Business service</u>
Customer/Marketing Group ¹	Telecommunication service to mass customers and convergence business
Enterprise Sales Group ¹	Telecommunication service to global market and enterprise customers and data service
Finance / Rental Business Group	Credit card, loan, lease and others
Others Group	Satellite TV, and others

- 1 The names of some operating segments have changed, from Telecommunication & Convergence/Customer Group and Global & Enterprise Group in prior period to Customer/Marketing Group and Enterprise Sales Group in current period, respectively.

Details of each segment for the years ended December 31, 2012, 2013 and 2014 are as follows:

<u>(in millions of Korean won)</u>	2012		
	<u>Operating revenues</u>	<u>Operating income (loss)</u>	<u>Depreciation and Amortization</u>
Customer/Marketing Group	₩15,932,278	₩ 733,461	₩2,440,338
Enterprise Sales Group	2,930,958	327,300	485,267
Finance/Rental Group	3,717,181	185,220	181,904
Others Group	4,252,074	83,039	147,238
	26,832,491	1,329,020	3,254,747
Elimination	(2,188,719)	351,079	19,331
Consolidated amount	<u>₩24,643,772</u>	<u>₩1,680,099</u>	<u>₩3,274,078</u>

<u>(in millions of Korean won)</u>	2013		
	<u>Operating revenues</u>	<u>Operating income(loss)</u>	<u>Depreciation and Amortization</u>
Customer/Marketing Group	₩14,938,037	₩ 51,853	₩2,445,321
Enterprise Sales Group	2,917,116	235,728	486,258
Finance/Rental Group	4,053,481	279,856	400,223
Others Group	5,093,995	287,482	233,322
	27,002,629	854,919	3,565,124
Elimination	(2,944,748)	(531,535)	1,050
Consolidated amount	<u>₩24,057,881</u>	<u>₩ 323,384</u>	<u>₩3,566,174</u>

<u>(in millions of Korean won)</u>	2014		
	<u>Operating revenues</u>	<u>Operating income (loss)</u>	<u>Depreciation and Amortization</u>
Customer/Marketing Group	₩14,566,755	₩(797,804)	₩2,534,392
Enterprise Sales Group	2,916,662	97,081	489,016
Finance/Rental Group	4,550,754	322,012	465,304
Others Group	4,819,391	(213,828)	273,208
	26,853,562	(592,539)	3,761,920
Elimination	(3,126,184)	(69,864)	13,434
Consolidated amount	<u>₩23,727,378</u>	<u>₩(662,403)</u>	<u>₩3,775,354</u>

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The regional segment information provided to the management for the reportable segments as of December 31, 2012, 2013 and 2014 and for the years ended December 31, 2012, 2013 and 2014 are as follows:

(in millions of Korean won)	Operating revenues			Non-current assets ¹	
	2012	2013	2014	2013	2014
Location					
Domestic	₩24,609,126	₩23,999,635	₩23,645,855	₩21,143,152	₩20,867,205
Overseas	34,646	58,246	81,523	176,700	204,654
Total	₩24,643,772	₩24,057,881	₩23,727,378	₩21,319,852	₩21,071,859

¹ Non-current assets include fixed assets, intangible assets and investment property.

Assets and liabilities of each segments as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013				Consolidated amount
	Non-finance	Finance /Rental	Total	Adjustment	
Assets					
<i>Current</i>	₩ 7,023,358	₩3,920,164	₩10,943,522	₩ (971,603)	₩ 9,971,919
Trade and other receivables	4,142,237	1,864,709	6,006,946	(767,377)	5,239,569
Short-term loans	—	889,418	889,418	(50,694)	838,724
Inventories	649,754	25,596	675,350	(1,732)	673,618
Other assets	2,231,367	1,140,441	3,371,808	(151,800)	3,220,008
<i>Non-current</i>	24,060,958	3,730,135	27,791,093	(2,912,895)	24,878,198
Trade and other receivables	796,622	68,877	865,499	(52,028)	813,471
Long-term loans	—	542,267	542,267	(32,394)	509,873
Property, equipment and intangible assets (including investment property)	18,817,659	1,931,006	20,748,665	571,187	21,319,852
Other assets	4,446,677	1,187,985	5,634,662	(3,399,660)	2,235,002
Total assets	₩31,084,316	₩7,650,299	₩38,734,615	₩(3,884,498)	₩34,850,117
Liabilities					
<i>Current</i>	₩ 8,452,101	₩3,716,585	₩12,168,686	₩ (944,570)	₩11,224,116
Trade and other payables	5,866,180	2,344,098	8,210,278	(796,455)	7,413,823
Borrowings	1,785,879	1,224,852	3,010,731	9,975	3,020,706
Other liabilities	800,042	147,635	947,677	(158,090)	789,587
<i>Non-current</i>	8,238,497	2,938,773	11,177,270	(388,685)	10,788,585
Trade and other payables	919,486	168,630	1,088,116	(29,232)	1,058,884
Borrowings	6,024,803	2,561,893	8,586,696	(123,509)	8,463,187
Other liabilities	1,294,208	208,250	1,502,458	(235,944)	1,266,514
Total liabilities	₩16,690,598	₩6,655,358	₩23,345,956	₩(1,333,255)	₩22,012,701

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(in millions of Korean won)	2014				
	Non-finance	Finance /Rental	Total	Adjustment	Consolidated amount
Assets					
<i>Current</i>	₩ 6,047,980	₩3,431,308	₩ 9,479,288	₩ (705,453)	₩ 8,773,835
Trade and other receivables	3,898,572	1,479,240	5,377,812	(566,762)	4,811,050
Short-term loans	—	759,684	759,684	(49,316)	710,368
Inventories	385,984	31,972	417,956	927	418,883
Other assets	1,763,424	1,160,412	2,923,836	(90,302)	2,833,534
<i>Non-current</i>	24,347,003	3,990,853	28,337,856	(3,312,416)	25,025,440
Trade and other receivables	856,756	59,701	916,457	(67,594)	848,863
Long-term loans	—	587,218	587,218	(2,304)	584,914
Property, equipment and intangible assets (including investment property)	18,111,139	2,230,419	20,341,558	730,301	21,071,859
Other assets	5,379,108	1,113,515	6,492,623	(3,972,819)	2,519,804
Total assets	<u>₩30,394,983</u>	<u>₩7,422,161</u>	<u>₩37,817,144</u>	<u>₩(4,017,869)</u>	<u>₩33,799,275</u>
Liabilities					
<i>Current</i>	₩ 7,683,942	₩3,079,278	₩10,763,220	₩ (776,073)	₩ 9,987,147
Trade and other payables	5,108,735	1,967,354	7,076,089	(667,978)	6,408,111
Borrowings	1,954,166	1,001,478	2,955,644	—	2,955,644
Other liabilities	621,041	110,446	731,487	(108,095)	623,392
<i>Non-current</i>	9,341,308	2,814,518	12,155,826	(131,255)	12,024,571
Trade and other payables	703,587	229,276	932,863	(23,671)	909,192
Borrowings	7,418,747	2,447,310	9,866,057	(6,316)	9,859,741
Other liabilities	1,218,974	137,932	1,356,906	(101,268)	1,255,638
Total liabilities	<u>₩17,025,250</u>	<u>₩5,893,796</u>	<u>₩22,919,046</u>	<u>₩ (907,328)</u>	<u>₩22,011,718</u>

34. Related Party Transactions

The list of related party of the Company as of December 31, 2014, is as follows:

Relationship	Related parties
Associates and jointly controlled entities	Korea Information & Technology Investment Fund, KT WiBro Infra Co., Ltd., K-REALTY CR REIT 1, Mongolian Telecommunications, KT-SB Venture Investment Fund, Boston Global Film & Contents Fund L.P., QTT Global (Group) Company Limited, CU Industrial Development Co., Ltd., Exdell Corporation, Information Technology Solution Bukbu Corporation, Information Technology Solution Nambu Corporation, Information Technology Solution Seobu Corporation, Information Technology Solution Busan Corporation, Information Technology Solution Jungbu Corporation, Information Technology Solution Honam Corporation, Information Technology Solution Daegu Corporation, VANGUARD Private Equity Fund, KT-LIG ACE Private Equity Fund, Smart Channel Co., Ltd., HooH Healthcare Inc., KD Living, Inc., ChungHo EZ-Cash Co., Ltd., JNK Retech Co., Ltd., Harex Info Tech Inc., MOS GS Co., Ltd., MOS Daegu Co., Ltd., MOS Chungcheong Co., Ltd., MOS Gangnam Co., Ltd., MOS GB Co., Ltd., MOS BS Co., Ltd., MOS Honam Co., Ltd., ANIMAX BROADCASTING KOREA Co., Ltd., SPERA Private Equity Fund, QCP New Technology Investment Fund No. 20, KT-IMM Investment Fund, Mirae Asset Good Company Investment Fund No.3, 2010 KIF-IMM IT Investment Fund, Saehacoms Co., Ltd., Oscar Ent. Co., Ltd., KoFC KTC-ORIX Korea-Japan Partnership Private Equity Fund II, Texno Pro Sistem, How Smartmall Private Special Asset Investment Trust, KT-CKP New Media Investment Fund, SP1 Private Equity Fund, LoginD Co., Ltd., KTC-NP-Growth Champ 2011-2 PEF, K-REALTY CR-REIT 6, ISU-kth Contents Investment Fund, U-City Technologies Philippines, Inc., Daiwon Broadcasting Co., Ltd.

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The related receivables and payables as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)		2013				
		Receivables			Payables	
		Trade receivables	Loans	Other receivables	Trade payables	Other payables
Associates and jointly controlled entities	ktcs Corporation	₩ 2,079	₩ —	₩ 606	₩ 765	₩ 14,372
	ktis Corporation	1,388	—	95	137	35,416
	Information Technology Solution Bukbu Corporation	3	—	610	2	4,555
	Information Technology Solution Nambu Corporation	2	—	9	—	3,989
	Information Technology Solution Seobu Corporation	8	—	577	—	4,095
	Information Technology Solution Busan Corporation	1	—	191	20	1,810
	Information Technology Solution Jungbu Corporation	2	—	375	—	3,697
	Information Technology Solution Honam Corporation	2	—	239	—	3,110
	Information Technology Solution Daegu Corporation	3	—	198	—	2,257
	KT Wibro Infra Co., Ltd.	—	—	—	—	172,081
	Smart Channel Co., Ltd.	9,717	9,638	39,724	2,261	75
	K- Realty CR-REITs No.	949	—	36,000	—	—
	MOS GS Co., Ltd.	74	—	1	1,763	50
	MOS Daegu Co., Ltd.	4	—	—	1,154	17
	MOS Chungcheong Co., Ltd.	39	—	1	1,186	230
	MOS Gangnam Co., Ltd.	2	—	1	—	180
	MOS GB Co., Ltd.	94	—	5	2,442	131
	MOS BS Co., Ltd.	3	—	1	1,006	53
	MOS Honam Co., Ltd.,	1	—	2	1,517	183
	Others	226	400	1,889	52	1,989
		<u>₩14,597</u>	<u>₩10,038</u>	<u>₩80,524</u>	<u>₩12,305</u>	<u>₩248,290</u>

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		2014				
		Receivables			Payables	
(in millions of Korean won)		Trade receivables	Loans	Other receivables	Trade payables	Other payables
Associates and jointly controlled entities	Information Technology Solution Bukbu Corporation	₩ 137	₩ —	₩ 11	₩ —	₩ 7,427
	Information Technology Solution Nambu Corporation	132	—	9	—	5,062
	Information Technology Solution Seobu Corporation	18	—	12	—	4,977
	Information Technology Solution Busan Corporation	7	—	15	39	2,293
	Information Technology Solution Jungbu Corporation	5	—	2	1	2,305
	Information Technology Solution Honam Corporation	203	—	4	1	5,159
	Information Technology Solution Daegu Corporation	3	—	—	—	2,278
	KT Wibro Infra Co., Ltd.	—	—	—	—	129,294
	Smart Channel Co., Ltd.	10,234	9,638	39,724	3,095	26
	K-Realty CR-REITs No.	948	—	35,850	—	—
	MOS GS Co., Ltd.	36	—	1	852	—
	MOS Daegu Co., Ltd.	3	—	26	1,507	—
	MOS Chungcheong Co., Ltd.	1	—	1	1,468	143
	MOS Gangnam Co., Ltd.	1	—	1	802	—
	MOS GB Co., Ltd.	115	—	5	1,142	—
	MOS BS Co., Ltd.	1	—	1	956	20
	MOS Honam Co., Ltd.,	1	—	2	2,032	—
	Others	491	—	1,789	190	1,124
		<u>₩12,336</u>	<u>₩9,638</u>	<u>₩77,453</u>	<u>₩12,085</u>	<u>₩160,108</u>

Significant transactions with related parties for the years ended December 31, 2012, 2013 and 2014, are as follows:

		2012	
(in millions of Korean won)		Sales	Purchases
Associates and jointly controlled entities	KTCS Corporation	₩ 44,649	₩262,227
	KTIS Corporation	38,144	273,938
	Information Technology Solution Bukbu Corporation	4,081	26,004
	Information Technology Solution Nambu Corporation	3,344	31,156
	Information Technology Solution Seobu Corporation	4,589	33,548
	Information Technology Solution Busan Corporation	2,750	18,327
	Information Technology Solution Jungbu Corporation	4,228	26,394
	Information Technology Solution Honam Corporation	2,845	35,666
	Information Technology Solution Daegu Corporation	1,872	12,696
	KT Wibro Infra Co., Ltd.	6	2,083
	Smart Channel Co., Ltd.	5,039	1,670
	K-REALTY CR REIT1	2,038	35,290
	MOS GS Co., Ltd.	1,033	17,620
	MOS Daegu Co., Ltd.	429	12,318
	MOS Chungcheong Co., Ltd.	462	12,760
	MOS Gangnam Co., Ltd.	372	14,474
	MOS GB Co., Ltd.	1,401	22,113
	MOS BS Co., Ltd.	575	15,716
	MOS Honam Co., Ltd.	542	13,799
	Others	3,002	19,895
		<u>₩121,401</u>	<u>₩887,694</u>

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		2013	
(in millions of Korean won)		Sales	Purchases
Associates and jointly controlled entities	KTCS Corporation	₩ 45,172	₩258,203
	KTIS Corporation	59,537	281,219
	Information Technology Solution Bukbu Corporation	4,784	29,626
	Information Technology Solution Nambu Corporation	4,871	33,232
	Information Technology Solution Seobu Corporation	5,397	34,526
	Information Technology Solution Busan Corporation	2,920	18,967
	Information Technology Solution Jungbu Corporation	5,318	27,483
	Information Technology Solution Honam Corporation	3,122	36,096
	Information Technology Solution Daegu Corporation	2,048	13,462
	KT Wibro Infra Co., Ltd.	9	1,660
	Smart Channel Co., Ltd.	8,188	—
	K-REALTY CR REIT1	2,039	36,349
	MOS GS Co., Ltd.	1,465	17,337
	MOS Daegu Co., Ltd.	806	12,061
	MOS Chungcheong Co., Ltd.	819	12,111
	MOS Gangnam Co., Ltd.	749	15,078
	MOS GB Co., Ltd.	1,981	22,858
	MOS BS Co., Ltd.	914	15,117
	MOS Honam Co., Ltd.	948	13,803
	Others	2,739	15,766
		<u>₩153,826</u>	<u>₩894,954</u>
		2014	
(in millions of Korean won)		Sales	Purchases
Associates and jointly controlled entities	KTCS Corporation ¹	₩ 59,739	₩245,648
	KTIS Corporation ¹	78,546	243,336
	Information Technology Solution Bukbu Corporation	6,787	54,450
	Information Technology Solution Nambu Corporation	7,574	45,940
	Information Technology Solution Seobu Corporation	6,388	40,251
	Information Technology Solution Busan Corporation	4,093	26,174
	Information Technology Solution Jungbu Corporation	7,187	37,436
	Information Technology Solution Honam Corporation	4,976	36,081
	Information Technology Solution Daegu Corporation	3,460	21,006
	KT Wibro Infra Co., Ltd.	11	1,237
	Smart Channel Co., Ltd.	14,002	2
	K-REALTY CR REIT1	2,067	37,413
	MOS GS Co., Ltd.	1,593	17,063
	MOS Daegu Co., Ltd.	894	12,092
	MOS Chungcheong Co., Ltd.	867	12,105
	MOS Gangnam Co., Ltd.	775	16,209
	MOS GB Co., Ltd.	2,017	21,114
	MOS BS Co., Ltd.	858	15,762
	MOS Honam Co., Ltd.	780	14,417
	Others	4,401	11,903
		<u>₩207,015</u>	<u>₩909,639</u>

¹ The transactions for the year ended December 31, 2014, before ktcs and kits were included in consolidation scope.

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Key management compensation for the years ended December 31, 2012, 2013 and 2014 consists of:

(in millions of Korean won)	2012	2013	2014
Salaries and other short-term benefits	₩3,166	₩3,203	₩1,817
Provision for severance benefits	274	335	400
Stock-based compensation	1,078	842	965
Total	<u>₩4,518</u>	<u>₩4,380</u>	<u>₩3,182</u>

Fund transactions with related parties for the years ended December 31, 2013 and 2014, are as follows

		2013			
		Loan transactions		Borrowing transactions	
		Loans	Collections	Borrowings	Repayments
(in millions of Korean won)					Equity contributions in cash
Associates and jointly controlled entities	ktis Corporation	₩—	₩654	₩—	₩—
	KT-SB Venture Investment Fund	—	—	—	6,000
	JNK Retech Co., Ltd	—	—	—	1,176
	KT-CKP New Media Investment Fund	—	—	—	2,250
		<u>₩—</u>	<u>₩654</u>	<u>₩—</u>	<u>₩9,426</u>
		2014			
		Loan transactions		Borrowing transactions	
		Loans	Collections	Borrowings	Repayments
(in millions of Korean won)					Equity contributions in cash
Associate	KT-IMM Investment Fund	₩—	₩—	₩—	₩—
	HooH Healthcare Inc.	—	—	—	401
	KT-CKP New Media Investment Fund ...	—	—	—	—
	K-REALTY CR-REIT 6	—	—	—	—
	ISU-kth Contents Investment Fund	—	—	—	—
	KoFC KTC-ORIX Korea-Japan Partnership Private Equity Fund II	—	—	—	—
		<u>₩—</u>	<u>₩—</u>	<u>₩—</u>	<u>₩401</u>
					<u>₩15,396</u>

Payment guarantees and collaterals provided by the Company

As of December 31, 2014, based on the investors' agreement, the Company has an obligation to provide funding to Smart Channel Co., Ltd., a related company, if Smart Channel Co., Ltd. is unable to fulfill its obligation to pay its payables. The Company pledged investment securities in Smart Channel Co., Ltd. as collateral (Note 20).

There are no collaterals and payment guarantees provided by the related parties.

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35. Financial risk management

(1) Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

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 finance 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 unaffected the Company's cash flows is not hedged but can be hedged at a particular situation.

As of December 31, 2012, 2013 and 2014 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
2012.12.31	+10%	₩(64,746)	₩(52,203)
	-10%	64,746	52,203
2013.12.31	+10%	₩(46,173)	₩(47,888)
	-10%	46,173	47,888
2014.12.31	+10%	₩(45,430)	₩(38,437)
	-10%	45,430	38,437

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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, 2012, 2013 and 2014 are as follows:

(in thousands of Foreign currencies)	2012		2013		2014	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets	Financial liabilities
USD	217,488	2,377,137	254,917	2,225,700	197,221	2,532,614
SDR	494	1,130	1,105	1,211	573	1,027
JPY	657,947	35,102,877	190,520	30,054,316	34,168	30,051,367
GBP	1	9	—	134	—	257
EUR	5,395	2,614	1,342	4,943	134	177
DZD	3,770	—	2,798	—	929	—
CNY	10,236	197	—	—	3,957	—
UZS	7,920,825	38,727,985	1,805,565	—	7,978,633	—
RWF	—	—	11,962	—	13,593	—
IDR	347,447	—	—	—	—	—
HKD	—	—	—	—	158	—
BDT	—	—	—	—	299	—
COP	—	—	—	—	23,583	—
PLN	—	—	—	—	28,195	—
VND	—	—	—	—	273,313	93,756
CHF	—	—	—	—	—	78

(iii) Price risk

As of December 31, 2012, 2013 and 2014 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	Equity
2012.12.31	+10%	₩ —	₩ 4,916
	-10%	—	(4,916)
2013.12.31	+10%	₩ —	₩ 5,535
	-10%	—	(5,535)
2014.12.31	+10%	₩ —	₩ 6,593
	-10%	—	(6,593)

The above 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) Cashflow 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

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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, 2012, 2013 and 2014 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:

<u>(In millions of Korean won)</u>	<u>Fluctuation of interest rate</u>	<u>Income before tax</u>	<u>Shareholders' equity</u>
2012.12.31	+ 100 bp	₩ (562)	₩ (368)
	- 100 bp	(5,100)	(5,361)
2013.12.31	+ 100 bp	₩ 10,345	₩ 12,846
	- 100 bp	(17,201)	(19,017)
2014.12.31	+ 100 bp	₩ (4,717)	₩ 4,892
	- 100 bp	(4,632)	(11,064)

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, 2013 and 2014, maximum exposure to credit risk is as follows.

<u>(In millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Cash equivalents(except cash on hand)	₩ 2,065,157	₩ 1,884,745
Trade and other receivables ¹	6,053,040	5,659,913
Loans receivable	1,348,597	1,295,282
Finance lease receivables	709,937	584,413
Other financial assets		
Financial assets at fair value through the profit or loss	15,643	6,983
Derivative used for hedging	3,496	41,540
Time deposits and others	582,693	455,622
Available-for-sale financial assets	25,978	27,870
Held-to-maturity financial assets	3,248	7,767
Financial guarantee contracts ²	389,814	55,393
Total	<u>₩11,197,603</u>	<u>₩10,019,528</u>

1 As of December 31, 2014, the Company is provided with a payment guarantee of ₩674,768 million from Seoul Guarantee Insurance related to the sale of certain accounts receivable arising from the handset sales.

2 Total amounts guaranteed by the Company according to the guarantee contracts.

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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 date of the end of each reporting period to the contractual maturity date. These amounts are contractual undiscounted cash flows.

2013.12.31				
(in millions of Korean won)	Less than 1 year	1-5 years	More than 5 years	Total
Trade and other payables	₩ 7,429,289	₩ 789,999	₩ 352,928	₩ 8,572,216
Finance lease payables	22,498	52,877	—	75,375
Borrowings (including bonds payable)	3,147,761	5,408,176	3,468,282	12,024,219
Other non-derivative financial liabilities	—	3,166	53,704	56,870
Financial guarantee contracts ¹	389,814	—	—	389,814
Total	₩10,989,362	₩6,254,218	₩3,874,914	₩21,118,494

2014.12.31				
(in millions of Korean won)	Less than 1 year	1-5 years	More than 5 years	Total
Trade and other payables	₩ 6,973,931	₩1,028,043	₩ 254,852	₩ 8,256,826
Finance lease payables	22,516	37,382	—	59,898
Borrowings (including bonds payable)	2,986,372	6,508,681	4,162,910	13,657,963
Other non-derivative financial liabilities	405	3,441	—	3,846
Financial guarantee contracts ¹	55,393	—	—	55,393
Total	₩10,038,617	₩7,577,547	₩4,417,762	₩22,033,926

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.

2012.12.31				
(in millions of Korean won)	Less than 1 year	1-5 years	More than 5 years	Total
Outflow	₩1,020,494	₩1,507,287	₩41,292	₩2,569,073
Inflow	949,921	1,550,822	45,093	2,545,836

2013.12.31				
(in millions of Korean won)	Less than 1 year	1-5 years	More than 5 years	Total
Outflow	₩971,454	₩1,377,071	₩38,795	₩2,387,320
Inflow	910,488	1,256,407	41,648	2,208,543

2014.12.31				
(in millions of Korean won)	Less than 1 year	1-5 years	More than 5 years	Total
Outflow	₩242,051	₩2,282,242	₩38,795	₩2,563,088
Inflow	210,045	2,217,211	43,418	2,470,674

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(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-to-equity ratios as of December 31, 2013 and 2014, are as follows:

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
Total liabilities	₩22,012,701	₩22,011,718
Total equity	12,837,416	11,787,557
Debt-to-equity ratio	171%	187%

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 ratios as of December 31, 2013 and 2014, are as follows:

<u>(in millions of Korean won, %)</u>	<u>2013</u>	<u>2014</u>
Total borrowings	₩11,552,103	₩12,870,392
Less: cash and cash equivalents	(2,070,869)	(1,888,663)
Net debt	9,481,234	10,981,729
Total equity	12,837,416	11,787,557
Total capital	22,318,650	22,769,286
Gearing ratio	42%	48%

(3) Offsetting Financial Assets and Financial Liabilities

Details of the Company's recognized financial assets subject to enforceable master netting arrangements or similar agreements are as follows:

<u>(in millions of Korean won)</u>	<u>2013</u>				
	<u>Gross assets</u>	<u>Gross liabilities offset</u>	<u>Net amounts presented in the statement of financial position</u>	<u>Amounts not offset</u>	<u>Net amount</u>
				<u>Financial instruments</u>	<u>Cash collateral</u>
Derivative assets for hedging purpose ¹	₩ 5,393	₩ —	₩ 5,393	₩ (5,393)	₩—
Trade receivables ²	100,989	(60)	100,929	(92,979)	—
	<u>₩106,382</u>	<u>₩(60)</u>	<u>₩106,322</u>	<u>₩(98,372)</u>	<u>₩—</u>
					<u>₩7,950</u>

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2014						
(in millions of Korean won)	Gross assets	Gross liabilities offset	Net amounts presented in the statement of financial position	Amounts not offset		Net amount
				Financial instruments	Cash collateral	
Derivative assets for hedging purpose ¹	₩ 3,225	₩—	₩ 3,225	₩ (3,225)	₩—	₩ —
Trade receivables ²	107,179	(1)	107,178	(103,704)	—	3,474
	<u>₩110,404</u>	<u>₩(1)</u>	<u>₩110,403</u>	<u>₩(106,929)</u>	<u>₩—</u>	<u>₩3,474</u>

- 1 The amount applied with master netting arrangements under the standard contract of International Swap and Derivatives Association(ISDA).
- 2 The amount applied with netting arrangements under the reference offer of the telecommunication facility interconnection and sharing data among telecommunications companies.

The Company's recognized financial liabilities subject to enforceable master netting arrangements or similar agreements are as follows:

2013						
Korean won)	Gross liabilities	Gross assets offset	Net amounts presented in the statement of financial position	Amounts not offset		Net amount
				Financial instruments	Cash collateral	
Derivative liabilities for hedging purpose ¹	₩ 9,889	₩—	₩ 9,889	₩ (5,393)	₩—	₩4,496
Trade payables ²	95,754	—	95,754	(92,979)	—	2,775
Other payables ²	11	(2)	9	—	—	9
	<u>₩105,654</u>	<u>₩(2)</u>	<u>₩105,652</u>	<u>₩(98,372)</u>	<u>₩—</u>	<u>₩7,280</u>

2014						
(in millions of Korean won)	Gross liabilities	Gross assets offset	Net amounts presented in the statement of financial position	Amounts not offset		Net amount
				Financial instruments	Cash collateral	
Derivative liabilities for hedging purpose ¹	₩ 49,016	₩—	₩ 49,016	₩ (3,225)	₩—	₩45,791
Trade payables ²	108,669	—	108,669	(103,704)	—	4,965
Other payables ²	2	(1)	1	—	—	1
	<u>₩157,687</u>	<u>₩(1)</u>	<u>₩157,686</u>	<u>₩(106,929)</u>	<u>₩—</u>	<u>₩50,757</u>

- 1 The amount applied with master netting arrangements under the standard contract of International Swap Sand Derivatives Association(ISDA).
- 2 The amount applied with netting arrangements under the reference offer of the telecommunication facility interconnection and sharing data among telecommunications companies.

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36. Fair Value

(1) Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents ¹	₩ 2,070,869	₩ 2,070,869	₩ 1,888,663	₩ 1,888,663
Trade and other receivables ¹	6,053,040	6,053,040	5,659,913	5,659,913
Other financial assets				
Financial instruments at fair value through profit or loss . . .	15,643	15,643	6,983	6,983
Derivative financial instruments for hedging purpose	3,496	3,496	41,540	41,540
Time deposits and others ¹	582,693	582,693	455,622	455,622
Held-to-maturity financial assets ¹	3,248	3,248	7,767	7,767
Available-for-sale financial assets ²	405,194	405,194	437,285	437,285
	<u>₩ 9,134,183</u>	<u>₩ 9,134,183</u>	<u>₩ 8,497,773</u>	<u>₩ 8,497,773</u>
Financial liabilities				
Trade and other liabilities ¹	₩ 8,472,707	₩ 8,472,707	₩ 7,317,303	₩ 7,317,303
Financial lease liabilities	68,210	68,210	55,007	55,007
Borrowings	11,483,893	11,499,645	12,815,385	12,821,442
Other financial liabilities				
Financial instruments at fair value through profit or loss	2,956	2,956	3,980	3,980
Derivative financial instruments for hedging purpose	150,612	150,612	122,012	122,012
Financial guarantee liability ¹	15,984	15,984	5,434	5,434
Other financial liabilities ¹	73,080	73,080	82,816	82,816
	<u>₩20,267,442</u>	<u>₩20,283,194</u>	<u>₩20,401,937</u>	<u>₩20,407,994</u>

¹ The Company did not conduct fair value estimation since the book value is a reasonable approximation of the fair value.

² Equity instruments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably and excluded from the fair value disclosures.

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(2) Financial Instruments Measured at Cost

Available-for-sale financial assets measured at cost as of December 31, 2013 and 2014, are as follows:

<u>(in millions of Korean won)</u>	<u>2013</u>	<u>2014</u>
SBS KT SPC	₩ 25,000	₩ —
IBK-AUCTUS Green Growth Private Equity Fund	14,318	14,068
MBC KT SPC	11,000	—
Ustream Inc	11,295	—
CBC II Fund	6,633	9,548
TRANSLINK No.2 Fund	8,080	9,104
KBS KT SPC	11,000	7,000
WALDEN No.6 Fund	5,956	5,749
Storm IV Fund	3,501	5,162
Enterprise DB (Convertible Preferred Stock)	3,013	3,013
The 1 st Praxis PE	3,000	—
AMOGREENTECH	3,000	3,000
Ars Magna Private Equity Fund	—	3,000
Kokam Co., Ltd.	2,794	2,794
KDBC-IMM No.1 Private Equity Fund	—	2,499
Nexenta Systems (Convertible Preferred Stock)	2,260	2,260
Nexenta Systems	1,029	2,159
BK Constant Recovery Private Equity Fund	—	2,000
HNNSC Private Equity Fund	—	2,000
KDBC-EN Agro Private Equity Fund	—	2,000
Eco 2014 Private Equity Fund	—	2,000
IMM Infra No.2	—	2,000
K- Realty CR-REITs No.6	—	2,000
Newkyunggi Resort Corp	1,240	1,214
Goods Flow Co., Ltd.	1,000	1,000
KaKao Co., Ltd	1,000	—
Kamur No.1 Private Equity Fund	2,000	—
Others	25,314	4,701
	<u>₩142,433</u>	<u>₩88,271</u>

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 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.

(3) Fair Value Hierarchy

Assets measured at fair value or for which the fair value is disclosed are categorized within the fair value hierarchy, and the defined levels are 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, prices) or indirectly (that is, derived from prices) (Level 2).

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- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value or its fair value is disclosed as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Other financial assets				
Financial assets at fair value through profit or loss	₩ —	₩ 499	₩ 15,144	₩ 15,643
Derivative financial assets for hedging purpose	—	—	3,496	3,496
Available-for-sale financial assets	55,347	57,533	292,314	405,194
	<u>55,347</u>	<u>58,032</u>	<u>310,954</u>	<u>424,333</u>
Disclosed fair value				
Jointly controlled entities and associates	69,840	—	—	69,840
Investment property ¹	—	—	2,051,183	2,051,183
	<u>69,840</u>	<u>—</u>	<u>2,051,183</u>	<u>2,121,023</u>
	<u>₩125,187</u>	<u>₩ 58,032</u>	<u>₩ 2,362,137</u>	<u>₩ 2,545,356</u>
Recurring fair value measurements				
Other financial liabilities				
Financial liabilities at fair value through profit or loss	₩ —	₩ 6	₩ 2,950	₩ 2,956
Derivative financial liabilities for hedging purpose	—	113,980	36,632	150,612
	<u>—</u>	<u>113,986</u>	<u>39,582</u>	<u>153,568</u>
Disclosed fair value				
Borrowings	—	—	11,499,645	11,499,645
	<u>—</u>	<u>—</u>	<u>11,499,645</u>	<u>11,499,645</u>
	<u>₩ —</u>	<u>₩113,986</u>	<u>₩11,539,227</u>	<u>₩11,653,213</u>

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(in millions of Korean won)	2014			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Other financial assets				
Financial assets at fair value through profit or loss	₩ —	₩ —	₩ 6,983	₩ 6,983
Derivative financial assets for hedging purpose	—	34,198	7,342	41,540
Available-for-sale financial assets	65,932	42,093	329,260	437,285
	<u>65,932</u>	<u>76,291</u>	<u>343,585</u>	<u>485,808</u>
Disclosed fair value				
Jointly controlled entities and associates	8,247	—	—	8,247
Investment property ¹	—	—	2,277,234	2,277,234
	<u>8,247</u>	<u>—</u>	<u>2,277,234</u>	<u>2,285,481</u>
	<u>₩74,179</u>	<u>₩ 76,291</u>	<u>₩ 2,620,819</u>	<u>₩ 2,771,289</u>
Recurring fair value measurements				
Other financial liabilities				
Financial liabilities at fair value through profit or loss	₩ —	₩ —	₩ 3,980	₩ 3,980
Derivative financial liabilities for hedging purpose	—	122,012	—	122,012
	<u>—</u>	<u>122,012</u>	<u>3,980</u>	<u>125,992</u>
Disclosed fair value				
Borrowings	—	—	12,821,442	12,821,442
	<u>—</u>	<u>—</u>	<u>12,821,442</u>	<u>12,821,442</u>
	<u>₩ —</u>	<u>₩122,012</u>	<u>₩12,825,442</u>	<u>₩12,947,434</u>

1 The highest and best use of a non-financial asset does not differ from its current use.

(4) Transfers Between Fair Value Hierarchy Levels of Recurring Fair Value Measurements

(a) Details of transfers between Level 1 and Level 2 of the fair value hierarchy for the recurring fair value measurements are as follows:

There are no transfers between Level 1 and Level 2 of the fair value hierarchy for the recurring fair value measurements.

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(b) Details of changes in Level 3 of the fair value hierarchy for the recurring fair value measurements are as follows:

2013							
(in millions of Korean won)	Interest rate swap	Other derivative assets	Derivative financial assets for hedging purpose	Available-for-sale	Other derivative liabilities	Financial liabilities designated as at fair value through profit or loss	Derivative financial liabilities for hedging purpose
Beginning balance	₩ 1	₩6,287	₩ 20,511	₩217,201	₩ —	₩3,153	₩23,540
Reclassification	15,633	—	(15,633)	—	—	—	—
Amount recognized in profit or loss	(8,395)	2,469	127	(3,844)	148	(351)	9,268
Amount recognized in other comprehensive income	—	—	(1,509)	95,434	—	—	3,824
Purchases	—	—	—	3,009	—	—	—
Sales	—	(851)	—	(29,851)	—	—	—
Transfer into Level 3 (From Cost method)	—	—	—	10,365	—	—	—
Ending balance	<u>₩ 7,239</u>	<u>₩7,905</u>	<u>₩ 3,496</u>	<u>₩292,314</u>	<u>₩148</u>	<u>₩2,802</u>	<u>₩36,632</u>
2014							
(in millions of Korean won)	Interest rate swap	Other derivative assets	Derivative financial assets for hedging purpose	Available-for-sale	Other derivative liabilities	Financial liabilities designated as at fair value through profit or loss	Derivative financial liabilities for hedging purpose
Beginning balance	₩ 7,239	₩7,905	₩ 3,496	₩292,314	₩148	₩2,802	₩ 36,632
Reclassification	—	—	—	(5,836)	—	—	—
Amount recognized in profit or loss	(1)	(395)	5,315	(3,483)	32	532	—
Amount recognized in other comprehensive income	—	—	(1,469)	21,006	—	—	—
Purchases	—	—	—	34,322	466	—	—
Sales	—	(527)	—	(26,512)	—	—	—
Settlement	(7,238)	—	—	—	—	—	(36,632)
Transfer into Level 3 (From Cost method)	—	—	—	17,449	—	—	—
Ending balance	<u>₩ —</u>	<u>₩6,983</u>	<u>₩ 7,342</u>	<u>₩329,260</u>	<u>₩646</u>	<u>₩3,334</u>	<u>₩ —</u>

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(5) Valuation Technique and the Inputs

Valuation techniques and inputs used in the recurring, non-recurring fair value measurements and disclosed fair values categorized within Level 2 and Level 3 of the fair value hierarchy as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013		
	Fair value	Level	Valuation techniques
Recurring fair value measurements			
Other financial assets			
Financial assets at fair value through profit or loss			
Held for trading financial assets			
Interest rate and currency swap	₩ 7,239	3	Hull-White model
Currency forward	499	2	Discounted cash flow model
Other derivative assets	7,905	3	Monte-Carlo Simulation
Derivative financial assets for hedging purpose	3,496	3	Option model (binomial trees)
Available-for-sale financial assets	349,847	2,3	Discounted cash flow model
Disclosed fair value			
Investment property	2,051,183	3	Discounted cash flow model
Recurring fair value measurements			
Other financial liabilities			
Financial liabilities at fair value through profit or loss			
Held for trading financial assets			
Currency forward	6	2	Discounted cash flow model
Other derivatives	148	3	Option model (binomial trees)
Financial liabilities designated as at fair value through profit or loss	2,802	3	Option model (binomial trees)
Derivative financial liabilities for hedging purpose	113,980	2	Discounted cash flow model
	36,632	3	Hull-White model
Disclosed fair value			
Borrowings	11,499,645	3	Discounted cash flow model

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(in millions of Korean won)	2014		
	Fair value	Level	Valuation techniques
Recurring fair value measurements			
Other financial assets			
Financial assets at fair value through profit or loss			
Held for trading financial assets			
Other derivative assets	₩ 6,983	3	Monte-Carlo Simulation
Derivative financial assets for hedging purpose	34,198	2	Option model (binomial trees)
Available-for-sale financial assets	7,342	3	Discounted cash flow model
Investment property	371,353	2,3	Hull-White model
Disclosed fair value			
Investment property	2,277,234	3	Discounted cash flow model
Recurring fair value measurements			
Other financial liabilities			
Financial liabilities at fair value through profit or loss			
Held for trading financial assets			
Other derivatives	646	3	Option model (binomial trees)
Financial liabilities designated as at fair value through profit or loss			
loss	3,334	3	Option model (binomial trees)
Derivative financial liabilities for hedging purpose	122,012	2	Discounted cash flow model
Disclosed fair value			
Borrowings	12,821,442	3	Discounted cash flow model

(6) Valuation Processes for Fair Value Measurements Categorized Within Level 3

The Company uses external experts that perform the fair value measurements required for financial reporting purposes. External experts report directly to the company's financial officer of the financial & accounting department, and discusses valuation processes and results with the financial officer in line with the Company's reporting dates.

(7) Gains and losses on valuation at the transaction date

In the case that the Company values derivative financial instruments using inputs not based on observable market data, and the fair value calculated by the said valuation technique differs from the transaction price, then the fair value of the financial instruments is recognized as the transaction price. The difference between the fair value at initial recognition and the transaction price is deferred and amortized using a straight-line method by maturity of the financial instrument. However, in the case that inputs of the valuation techniques become observable in markets, the remaining deferred difference is immediately recognized in full in profit for the year.

In relation to this, details and changes of the total deferred difference for the years ended December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013	2014
Beginning balance	₩ 54,152	₩ 43,322
New transactions	—	—
Amortization	(10,830)	(10,830)
Ending balance	₩ 43,322	₩ 32,492

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37. Business Combination

(1) ktcs Corporation

KT Hitel Co., Ltd., a subsidiary of the Company, acquired 4,800,000 treasury shares (11.3%) of ktcs Corporation, an associate, from ktcs Corporation on October 31, 2014.

ktcs Corporation was reclassified as a subsidiary from an associate as a result of this transaction accounted for in accordance with IFRS 3, *Business Combinations*.

As a result of applying acquisition method, the Company recognized gain on bargain purchase of ₩5,719 million. The gain on bargain purchase resulting from the decrease in value of goodwill and membership, which was previously recognized in the subsidiary's financial statements, is wholly recognized as profit for the year.

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)

Consideration transferred (a)	₩ 37,119
Recognized amounts of assets acquired and liabilities assumed ¹	
Cash and cash equivalents	₩ 31,750
Trade and other receivables	66,051
Other financial assets	34,033
Inventories	12,945
Tangible assets	15,757
Intangible assets	6,181
Investment property	9,837
Other assets	39,675
Trade and other payables	(56,785)
Borrowings	(203)
Current income tax liabilities	(2,554)
Provisions	(559)
Net defined benefit liabilities	(6,554)
Other liabilities	(8,194)
The net of total amounts of identifiable assets and liabilities measured at fair value (b)	₩141,380
Non-controlling interests ² (c)	98,542
Gain on bargain purchase (a-b+c)	₩ (5,719)

¹ The assets acquired and liabilities assumed are measured at fair value in accordance with IFRS 3, *Business Combination*.

² At the date of acquisition, the Company measures any non-controlling interest in ktcs Corporation at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

As described in Note 14, the previously held interest in ktcs Corporation was measured at fair value, and the Company recognized operating expense of ₩2,469 million arising from the value measurement on acquisition.

After the acquisition date, the operating revenue and net income of ktcs Corporation, before the elimination of intercompany transactions, which are included in consolidated statement of income, are ₩78,828 million and ₩2,788 million, respectively, for the year ended December 31, 2014. If ktcs

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Corporation was consolidated on January 1, 2014, the operating revenue and net income included in consolidated statement of income would have been ₩439,077 million and ₩11,203 million, respectively, for the year ended December 31, 2014.,

The fair value of trade accounts receivable and others acquired from ktcs Corporation is ₩66,051 million, and all are deemed collectible.

(2) ktis Corporation

The Controlling Company disposed of 4,954,704 shares (11.6%) of ktcs Corporation, an associate, to ktis Corporation, another associate, and acquired 4,000,000 treasury shares (11.5%) of ktis Corporation from ktis Corporation on October 30, 2014.

ktis Corporation was reclassified as a consolidated subsidiary from an associate as a result of this transaction accounted for in accordance with IFRS 3, *Business Combinations*.

As a result of applying acquisition method, the Company recognized gain on bargain purchase of ₩6,952 million. The gain on bargain purchase resulting from the decrease in value of goodwill and membership, which was previously recognized in the subsidiary's financial statements, is wholly recognized as profit for the year.

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)

Consideration transferred (a)	₩ 36,250
Recognized amounts of assets acquired and liabilities assumed ¹	
Cash and cash equivalents	₩ 15,152
Trade and other receivables	39,851
Other financial assets	60,993
Inventories	22,285
Tangible assets	3,034
Intangible assets	9,463
Other assets	55,424
Trade and other payables	(2,031)
Other financial liabilities	(27,317)
Current income tax liabilities	(1,414)
Provisions	(15,338)
Other liabilities	(12,654)
The net of total amounts of identifiable assets and liabilities measured at fair value (b)	147,448
Non-controlling interests ² (c)	104,246
Gain on bargain purchase (a-b+c)	₩ (6,952)

¹ The assets acquired and liabilities assumed are measured at fair value in accordance with IFRS 3, *Business Combination*.

² At the date of acquisition, the Company measures any non-controlling interest in ktis corporation at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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As described in Note 14, the previously held interest in ktis Corporation was measured at fair value, and the Company recognized operating expense of ₩4,667 million arising from the value measurement on acquisition.

After the acquisition date, the operating revenue and net income of ktis Corporation before the elimination of intercompany transactions, which are included in consolidated statement of income, are ₩83,850 million and ₩4,704 million, respectively, for the year ended December 31, 2014. If ktis Corporation was consolidated on January 1, 2014, the operating revenue and net income included in consolidated statement of income would have been ₩454,080 million and ₩13,323 million, respectively, for the year ended December 31, 2014.

The fair value of trade accounts receivable and others acquired from ktis Corporation is ₩39,851 million, but the full contract value is ₩40,029 million. The uncollectible amounts from these receivables are expected to be ₩178 million.

38. Interests in Unconsolidated Structured Entities

Details of information about its interests in unconsolidated structured entities, which the Company does not have control over, including the nature, purpose and activities of the structured entity and how the structured entity is financed, are as follows:

Remarks	Nature, purpose, activities and others
Real estate finance	A structured entity incorporated for the purpose of real estate development is provided with funds by investors' investments in equity and borrowings from financial institutions (including long-term and short-term loans and issuance of ABCP due in three months), and based on these, the structured entity implements activities such as real estate acquisition, development and mortgage loans. The structured entity repays loan principals with funds incurred from installment house sales after the completion of real estate development or with collection of the principal of mortgage loan. The remaining shares are distributed to investors. As of December 31, 2014, this entity is engaged in real estate finance structured entity, and generates revenues by receiving dividends from direct investments in or receiving interests on loans to the structured entity. Financial institutions, including the Entity, are provided with guarantees including joint guarantees or real estate collateral from investors and others. Consequently, the entity is a priority over other parties in the preservation of claim. However, when the credit rating of investors and others decreases or when the value of real estate decreases, the entity may be obliged to cover losses.
PEF and investment funds	Minority investors including managing members contribute to PEF and investment funds incorporated for the purpose of providing funds to the small, medium, or venture entities, and the managing member implements activities such as investments in equity or loans based on the contributions. As of December 31, 2014, the entity is engaged in PEF and investment funds structured entity, and after contributing to PEF and investment funds, the entity receives dividends for operating revenues from these contributions. The entity is provided with underlying assets of PEF and investment funds as collateral. However, when the value of the underlying assets decreases, the entity may be obliged to cover losses.

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Remarks	Nature, purpose, activities and others
M&A finance	A structured entity incorporated for the purpose of supporting a certain company's financial structure improvement or acquiring equity or convertible bonds is provided with funds by investors' investments in equity and long-term or short-term borrowings from financial institutions, and based on these, the structured entity acquires shares held by the entity, which has plans to improve its financial structure, or to dispose convertible bonds and others. The structured entity repays loan principals with funds incurred from disposals of holding shares after a certain period. The remaining shares are distributed to investors. As of December 31, 2014, the entity is engaged in M&A finance structured entity, and receives interests. Financial institutions are provided with guarantees including joint guarantees or shares subject to M&A from investors and others. Consequently, the entity is a priority over other parties in the preservation of claim. However, when the credit rating of investors and others decreases or when the value of shares provided as collateral decreases, the Company may be obliged to cover losses.
Asset securitization	A transferor other than this entity transfers the assets, which are subject to securitization, to a structured entity incorporated by the transferor or other financial institutions other than the entity, and based on this as underlying assets, the structured entity is provided with funds by asset-backed borrowings and pays acquisition costs of the acquired underlying assets. As of December 31, 2014, the entity is engaged in the structured entity, and generates revenues by receiving interest income as the entity provides asset-backed loans directly to the structured entity. When the structured entity has difficulty repaying loan principal, the transferor has obligation to cover the lack of funds. Consequently, the financial institutions including the entity are a priority over other parties in the preservation of claim. However, when the credit rating of transferor decreases, the said entity may be obliged to cover losses.
Other	There are other structured entity types, which the entity is engaged in, such as shipping finance, SPAC and others. Interest income is realized from the entity's loans to the relevant structured entity. When the credit rating of the shipping company decreases, or the value of vessels decreases, the entity may be obliged to cover losses. When SPAC is listed or merged after the entity invests in shares or convertible bonds issued by the relevant structured entity, revenues are realized from disposal of the shares of the convertible bonds. However, the entity may be obliged to cover losses when SPAC is liquidated if the SPAC is not listed or merged.

Details of scale of unconsolidated structured entities and nature of the risks associated with an entity's interests in unconsolidated structured entities as of December 31, 2013 and 2014, are as follows:

(in millions of Korean won)	2013					
	Real Estate Finance	PEF & Investment Fund	Acquisition Finance	Asset-backed Securitization	Others	Total
Total amount of Unconsolidated Structured Entities Assets	₩4,970,665	₩2,787,075	₩2,175,476	₩5,981,382	₩163,702	₩16,078,300
Assets recognized in statement of financial position						
Loans	₩ 277,663	₩ 360	₩ 101,969	₩ 228,413	₩ 12,043	₩ 620,448
Other financial assets	32,244	131,399	981	—	8,690	173,314
Jointly investment entities and associates	—	183,200	—	—	28,406	211,606
Total	₩ 309,907	₩ 314,959	₩ 102,950	₩ 228,413	₩ 49,139	₩ 1,005,368
Maximum loss exposure ¹						
Investment Assets	₩ 309,907	₩ 314,959	₩ 102,950	₩ 228,413	₩ 49,139	₩ 1,005,368
Credit grants	103,500	—	—	—	—	103,500
Total	₩ 413,407	₩ 314,959	₩ 102,950	₩ 228,413	₩ 49,139	₩ 1,108,868

¹ Maximum exposure to loss includes the investments recognized in the Company's financial statements and the amounts which are probable to be determined when certain conditions are met by agreements including purchase agreements, credit granting and others.

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(in millions of Korean won)	2014					
	Real Estate Finance	PEF & Investment Fund	Acquisition Finance	Asset-backed Securitization	Others	Total
Total amount of Unconsolidated Structured Entities Assets	₩4,584,026	₩3,894,693	₩2,086,841	₩4,828,936	₩127,228	₩15,521,724
Assets recognized in statement of financial position						
Loans	₩ 254,305	₩ 360	₩ 66,073	₩ 170,826	₩ 1,979	₩ 493,543
Other financial assets	24,340	112,116	—	—	8,369	144,825
Jointly investment entities and associates	7,081	155,000	—	—	27,630	189,711
Total	₩ 285,726	₩ 267,476	₩ 66,073	₩ 170,826	₩ 37,978	₩ 828,079
Maximum loss exposure ¹						
Investment Assets	₩ 285,726	₩ 267,476	₩ 66,073	₩ 170,826	₩ 37,978	₩ 828,079
Credit grants	88,000	—	—	—	—	88,000
Total	₩ 373,726	₩ 267,476	₩ 66,073	₩ 170,826	₩ 37,978	₩ 916,079

1 Maximum exposure to loss includes the investments recognized in the Company's financial statements and the amounts which are probable to be determined when certain conditions are met by agreements including purchase agreements, credit granting and others.

39. Information About Non-controlling Interests

Changes in Accumulated Non-controlling Interests

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Company for the years ended December 31, 2012, 2013 and 2014, is as follows:

(in millions of Korean won)	2012					
	Non-controlling Interests rate(%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Others	Accumulated non-controlling interests at the end of the year
KT Skylife Co., Ltd.	49.85%	₩288,051	₩1,792,439	₩ 277,729	₩ 93,876	₩ 71,258
BC Card Co., Ltd.	34.35%	338,954	702,707	1,395,463	81,986	119,261
KT Rental	42.00%	193,367	1,696,058	531,221	39,029	28,718
KT Powertel Co., Ltd.	55.15%	86,129	190,875	887,872	16,584	2,924
KT Hitel Co., Ltd.	34.06%	347,509	608,213	254,099	120,249	158,877

(in millions of Korean won)	2013					
	Non-controlling Interests rate(%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Others	Accumulated non-controlling interests at the end of the year
KT Skylife Co., Ltd.	49.89%	₩264,765	₩29,081	₩ (8,662)	₩ (1,203)	₩283,981
BC Card Co., Ltd.	34.49%	208,923	35,949	(10,890)	27,734	261,716
KT Rental	42.00%	119,029	8,682	(2,986)	(1,057)	123,668
KT Powertel Co., Ltd.	55.15%	66,323	3,007	(669)	(755)	67,906
KT Hitel Co., Ltd.	36.30%	45,507	(670)	—	11,183	56,020

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(in millions of Korean won)	Non-controlling Interests rate(%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Others	Accumulated non-controlling interests at the end of the year
KT Skylife Co., Ltd.	50.01%	₩283,981	₩26,828	₩(10,538)	₩(2,971)	₩297,300
BC Card Co., Ltd.	30.46%	261,716	31,414	(7,299)	7,100	292,931
KT Rental	42.00%	123,668	15,538	(1,903)	(121)	137,182
KT Powertel Co., Ltd.	55.15%	67,906	2,961	(631)	(5)	70,231
KT Hitel Co., Ltd.	36.30%	56,020	2,195	—	(7,079)	51,136

Summarized Financial Information on Subsidiaries

The summarized financial information for each subsidiary with non-controlling interests that are material to the Company before inter-company eliminations as of December 31, 2012, 2013 and 2014, are as follows:

(in millions of Korean won)	2012				
	KT Skylife Co., Ltd.	BC Card Co., Ltd.	KT Rental	KT Powertel Co., Ltd.	KT Hitel Co., Ltd.
Non-controlling Interests	49.85%	34.35%	42.00%	55.15%	34.06%
Current assets	₩303,069	₩1,792,439	₩ 305,651	₩ 93,877	₩132,892
Non-current assets	338,495	735,663	1,388,370	81,985	116,339
Current liabilities	197,972	1,696,058	537,424	39,029	75,727
Non-current liabilities	94,677	211,820	889,060	16,584	3,784
Equity	348,915	620,224	267,537	120,249	169,719
Accumulated non-controlling interests	173,932	213,049	112,369	66,323	57,803
Operating revenue	574,829	3,128,882	368,228	124,936	443,431
Profit or loss for the year	55,546	103,797	11,072	12,527	(8,902)
Total comprehensive income	52,152	127,976	10,107	12,229	(10,659)
The profit or loss allocated to non-controlling interests	27,689	35,655	4,650	6,909	(3,032)
Cash flows from operating activities	170,815	18,310	105,771	8,734	(14,954)
Cash flows from investing activities	(76,320)	(35,116)	(265,429)	(6,997)	5,263
Cash flows from financing activities before dividends paid to non-controlling interests	(18,642)	8,070	169,963	—	—
Dividends paid to non-controlling interests	—	(5,290)	—	—	—
Effect of exchange rate change on cash and cash equivalents	—	—	—	—	(10)
Net (decrease)/increase in cash and cash equivalents	75,853	(14,026)	10,305	1,737	(9,701)

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	2013				
(in millions of Korean won)	KT Skylife Co., Ltd.	BC Card Co., Ltd.	KT Rental	KT Powertel Co., Ltd.	KT Hitel Co., Ltd.
Non-controlling Interests	49.89%	34.49%	42.00%	55.15%	36.30%
Current assets	₩ 287,142	₩2,292,323	₩ 362,040	₩ 87,932	₩178,659
Non-current assets	397,509	672,427	1,826,231	79,199	115,006
Current liabilities	191,181	1,958,506	532,634	30,433	99,348
Non-current liabilities	91,887	216,505	1,363,625	13,579	3,296
Equity	401,583	789,738	292,013	123,119	191,021
Accumulated non-controlling interests	200,360	273,328	122,650	67,906	69,343
Operating revenue	630,469	3,102,968	886,959	112,905	582,925
Profit or loss for the year	72,724	128,475	32,400	5,453	3,551
Total comprehensive income	73,943	198,778	31,041	5,661	8,109
The profit or loss allocated to non-controlling interests	36,284	44,465	13,608	3,008	1,289
Cash flows from operating activities	141,282	273,904	(346,309)	16,010	11,108
Cash flows from investing activities	(218,797)	(17,335)	(39,246)	(15,794)	(18,199)
Cash flows from financing activities before dividends paid to non-controlling interests	(14,346)	10,216	392,098	(6,252)	13,192
Dividends paid to non-controlling interests	(8,344)	(10,051)	(2,075)	(1,538)	—
Effect of exchange rate change on cash and cash equivalents	—	—	(287)	—	(49)
Net (decrease)/increase in cash and cash equivalents	(100,205)	256,734	4,181	(7,574)	6,052

	2014				
(in millions of Korean won)	KT Skylife Co., Ltd.	BC Card Co., Ltd.	KT Rental	KT Powertel Co., Ltd.	KT Hitel Co., Ltd.
Non-controlling Interests	50.01%	30.46%	42.00%	55.15%	36.30%
Current assets	₩260,391	₩2,023,465	₩ 377,916	₩ 83,846	₩119,957
Non-current assets	422,618	676,923	2,278,469	73,484	107,037
Current liabilities	226,878	1,723,966	718,852	21,787	29,748
Non-current liabilities	19,448	70,957	1,598,798	8,209	1,681
Equity	436,683	905,465	338,735	127,334	195,565
Accumulated non-controlling interests	297,300	292,931	143,457	70,231	51,136
Operating revenue	656,430	3,298,144	1,074,569	105,250	494,455
Profit or loss for the year	55,162	134,450	51,388	5,368	12,205
Total comprehensive income	53,990	331,599	52,437	5,368	9,873
The profit or loss allocated to non-controlling interests	26,828	31,414	19,543	2,961	2,195
Cash flows from operating activities	140,057	176,019	(346,743)	10,190	65,096
Cash flows from investing activities	(20,889)	(21,699)	(35,632)	(647)	(44,712)
Cash flows from financing activities before dividends paid to non-controlling interests	(26,411)	(31,497)	359,510	(1,137)	—
Dividends paid to non-controlling interests	(10,538)	(7,299)	(1,903)	(631)	—
Effect of exchange rate change on cash and cash equivalents	—	—	—	—	(12)
Net (decrease)/increase in cash and cash equivalents	82,219	115,524	(24,768)	7,775	20,372

Transactions with Non-controlling Interests

The effect of changes in the ownership interest on the equity attributable to owners of the Company during the year is summarized as follows:

(in millions of Korean won)	2012	2013	2014
Carrying amount of non-controlling interests acquired ¹	₩178,763	₩ 14,353	₩16,136
Consideration paid to non-controlling interests ²	(15,359)	(16,202)	(9,764)
Excess of consideration paid recognized in parent's equity	₩163,404	₩ (1,849)	6,372

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- 1 In 2012, the Company acquired 30.68% of the issued shares of BC Card Co., Ltd, a subsidiary of Vogo-BCC Investment Holdings Co., Ltd. and KGF-BCC LIMITED, for a purchase consideration of ₩288,828 million. The Company now holds 69.54% equity interest in BC Card Co., Ltd. The carrying amount of the non-controlling interests in BC Card Co., Ltd. at the date of acquisition was ₩272,273 million. As a result, the Company derecognized non-controlling interests of ₩172,376 million and recorded an increase in equity attributable to owners of the parent of ₩116,452 million.

In 2013, the Company acquired the remaining 40% of the issued shares of KT Dutch B.V., a subsidiary, for a purchase consideration of ₩3,980 million. The Company now holds 100% equity interest in KT Dutch B.V. The carrying amount of the non-controlling interests in KT Dutch B.V. at the date of acquisition was ₩14,353 million. As a result, the Company derecognized non-controlling interests of ₩14,353 million and recorded an increase in equity attributable to owners of the parent of ₩10,373 million.

In 2014, the Company acquired the shares of BC Card Co., Ltd., which had been held by KT Capital Co., Ltd. as a result of spin-off and merger of certain division of KT Capital Co., Ltd. The company's effective percentage of ownership of BC Card Co., Ltd. increased from 65.51% to 69.54%. As a result, the carrying amount of controlling interest increased by ₩16,136 million.

- 2 In 2012, the Company's non-controlling interest increased by 13.85% through inequality capital increase of KT Cloudware Corporation on March 26, June 13 and November 30, 2012. This resulted in an increase in the carrying amount of non-controlling interest of ₩4,060 million. Also, on November 21, 2012, the Company's non-controlling interest increased by 9.09% through inequality capital increase of KT music Corporation. As a result, the carrying amount of non-controlling interest increased by ₩5,360 million.

In 2013, the Company's non-controlling interest increased by 2.24% through inequality capital increase of KT Hitel Co., Ltd. This resulted in an increase in the carrying amount of non-controlling interest of ₩8,439 million. Also, on July 11, 2013, the Company's non-controlling interest increased by 6.04% through inequality capital increase of Nasmedia, Inc. As a result, the carrying amount of non-controlling interest increased by ₩7,239 million.

In 2014, the convertible bonds issued by KT Music Corporation has been converted into common stocks, and as a result, common shares and share premium of the Company increased by ₩20,349 million. The Company's ownership decreased from 57.78% to 49.99%, and accordingly, the carrying amount of non-controlling interest increased by ₩9,764 million.

40. Discontinued Operations

As approved by the Company's Board of Directors on August 9, 2012, the Company decided to sell KT Tech, Inc., its subsidiary, and discontinued the operations related to handset development. KT-Tech's liquidation procedure has been completed and KT Tech's electrical operating performance was reflected in profit or loss from discontinued operations.

Income and loss from discontinued operations for the year ended December 31, 2012, are as follows:

(in millions of Korean won)	2012
Revenue	₩ 431
Expense	(35,756)
Income from discontinued operations before income taxes	₩(35,325)
Income tax expense for discontinued operations	3,791
Income (loss) from discontinued operations	<u>₩(31,534)</u>

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Cash flows from discontinued operations for the year ended December 31, 2012, are as follows:

<u>(in millions of Korean won)</u>	<u>2012</u>
Cash flows from operating activities	₩ 40,017
Cash flows from investing activities	(3,609)
Cash flows from financing activities	(28,243)
Changes in foreign exchange rates	(6)
Total cash flows	<u>₩ 8,159</u>

41. Subsequent Events

The Company merged KT Media Hub Co., Ltd., a subsidiary, on March 31, 2015.

As approved by the Company's Board of Directors, the Company entered into the contract with Lotte Group to dispose all of its interests in KT Rental, a subsidiary which was included in the financial/ rental segment, on March 11, 2015 and the deal closing is expected to be completed in the end of May, 2015. The assets and liabilities of disposal group as of December 31, 2014 are as follows.

<u>(in millions of Korean won)</u>	
Cash and cash equivalents	₩ 14,781
Trade and other receivables, net	124,364
Loans, net	84,878
Finance lease receivables, net	110,225
Other financial assets	4,192
Inventories, net	6,564
Property and equipment, net	2,008,855
Intangible assets, net	180,275
Other assets	61,296
Total assets	2,595,430
Trade and other payables	263,590
Finance lease liabilities, net	(107,688)
Borrowings	1,910,888
Other financial liabilities	3,400
Provisions	5,566
Deferred revenue	10,002
Other liabilities	33,094
Total liabilities	₩ 2,118,852

Subsequent to December 31, 2014, the Company has issued the public bonds, as follows:

<u>(in millions of Korean won)</u>	<u>Issue date</u>	<u>Total par value</u>	<u>Coupon rate</u>	<u>Maturity date</u>
The 188-1st Public bond	Jan. 29, 2015	₩160,000	2.35%	Jan. 29, 2020
The 188-2nd Public bond	Jan. 29, 2015	240,000	2.60%	Jan. 29, 2025
The 188-3rd Public bond	Jan. 29, 2015	50,000	2.86%	Jan. 29, 2035

Subsequent to December 31, 2014, the Company has issued the bonds in Japanese yen as follows:

	<u>Issue date</u>	<u>Total par value</u>	<u>Coupon rate</u>	<u>Maturity date</u>
2015 Samurai Bond	Feb. 24, 2015	JPY 15,000,000	0.48%	Feb. 23, 2018