

2005 Annual Report

Life is wonderful **full** **KTO**



Life is wonder**full**... **KT**

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Our corporate slogan, "Life is Wonderful," expresses KT's customer-oriented business approach.

A spin on the word "wonderful," KT's "Wonderfull" version articulates our desire to fill ("full") every

2 instant of our customers' lives with wonderful emotions.

While others dream of a ubiquitous world,  
KT is making that dream a reality.

Welcome to the world of KT.

Where history is being made,  
And the future is now.



# *Message from the* CEO



## Making the world a more “wonderfull” place, That's KT.

### To our Valued Shareholders, Customers and Friends:

Let me begin this message by expressing my gratitude for your unwavering support of KT over this past year. The year 2005 was an exhilarating one for us at KT – it was a time to not only reflect on our achievements, but also scrutinize what needed to be changed, and take proactive steps to correct these problems. Along these lines, we reassessed our past business practices and discarded longstanding competitive strategies deemed unsuitable for the new competitive environment. We also focused on new engines for growth – the highest priority for KT's management and the ultimate test of our ability to achieve future success.

Indeed, we have had a busy year full of new insights and renewed vigor.

### **Back to the Basics-Keeping it simple, making it better**

KT is a company that reflects lessons learned, and we are doing our utmost to build a stronger foundation, with our Wonder Management strategy at the core. Our goal is threefold – delivering wonderful service to our customers, taking a leadership role in shaping a wonderful world, and creating wonderful value for our shareholders. KT's Wonder Management is all about getting back to the basics of business and seeking sustainable long-term growth. Armed with Wonder Management, KT plans to reinvent itself as a company that stands at the forefront of Korea's IT industry, setting the trend for others to follow.

### **Poised and Ready-Facing the competition, making history**

KT is stronger than ever before and is ready to face the competition with optimism and confidence. With our new businesses poised to bear fruit and become the springboard for future success, we are well on our way to establishing ourselves on the global stage as a force to be reckoned with. Our WiBro service, for example, wowed APEC guests in Busan last November, and its imminent commercial rollout will set a milestone by inaugurating the age of fixed-mobile convergence. Further, IP-Media -

referred to as the “flower of telecom-broadcasting convergence” – promises to be an opportunity for adding value. With a sizeable potential spillover effect on linked industries and the potential to create new employment, IP-Media is likely to provide a much-needed stimulus to Korea's IT industry. In the mid- to long-term, KT will further invest in the digital content industry and offer total IT services for KT-MOS and the homes, offices and transportation systems of U-City. These efforts will bring us one step closer to creating a Ubiquitous world.

### **Customers come First - Securing trust, winning hearts**

Listening to our customers is KT's number one priority, and it is what allowed us to secure customer trust and support, the foundation of KT's current success. Indeed, our customers have made KT the innovative company it is today.

We believe that even a quality product or a breakthrough technology is meaningless if it does not secure the trust and hearts of customers. So with this in mind, we intend to renovate our operations from top to bottom, instilling in our employees a profound awareness of the customer as the key to corporate competitiveness at all levels of business. We will also work to build a sound basis for long-term growth, creating greater value for our shareholders and customers.

### **A Company that Cares – Reaching out, giving back to the community**

Economic activities in today's world have been profoundly transformed by IT, making a win-win approach to management a necessary strategy to ensure continued competitiveness. In light of this reality, KT will continue to nurture its strong labor-management relations, strive to improve our win-win cooperation systems with our partners, and foster mutually-beneficial relationships with our competitors. These measures will not only fuel KT's growth, but energize the IT industry as a whole. As Korea's largest common carrier with over one hundred years of history, KT is

known for making major social contributions to the Korean society. These efforts will continue in 2006 as we focus on reducing the digital divide, expanding universal services and providing various community outreach programs.

### **Seeing the future Now - No limitations, only possibilities**

KT's history is synonymous with the history of Korean IT itself, and with such a strong foundation, we will shape and help usher in a world where technology is a dependable companion, a way to improve the quality of life of all, in ways once thought unimaginable. KT hopes to make dreams come true and shape a brighter future for all. Indeed, tomorrow will be a Ubiquitous world – a world with seamless connection between homes, offices, and even transportation services. It will be a world more prosperous and convenient, and KT stands ready to lead you into this world.

Once again, we thank you for your continued support of KT.

### **Life is wonderful ... KT**

Joong-Soo Nam  
President & CEO



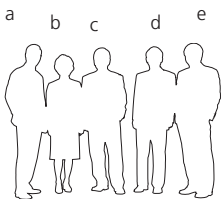


# Board of Directors

## Enhancing Shareholder Value with Sound Governance and Transparency

### Ownership and Board Structures Compliant with Global Standards

After making continuous efforts to increase share distribution for nearly a decade, KT has considerably reduced concentration of its ownership structure. With a fully independent board of directors and a management team consisting of professional business administrators, KT's corporate governance is now compliant with global standards. And to maximize shareholder value, KT now requires a board resolution for authorizing stock repurchase/cancellation programs. In 2004, KT became Korea's first corporation to adopt cumulative voting for the election of directors, and we are still embarking on initiatives to protect the rights of minority shareholders.



a. **Stuart B. Solomon**

B.S. Biochemistry, Syracuse University /  
Vice President, MetLife Korea /  
CEO, MetLife Korea (currently)

b. **Jeong-Ro Yoon**

B.A. Sociology, Seoul National University /  
Ph.D. Sociology, Harvard University / Member, Presidential  
Advisory Committee on Science & Technology / Member,  
Presidential Committee on Balanced National Development /  
Professor, School of Humanities and Social Sciences, KAIST  
(currently)

c. **Jong-Sang Kim**

LL.B. College of Law, Seoul National University /  
Ph.D. Business Administration, Konkuk University /  
Outside Director, Korean Air / Vice President, Korea  
Institute of Certified Public Accountants / CEO · CPA, Seil  
Tax Accounting Service (currently)

d. **Joong-Soo Nam**

B.A. Business Administration, Seoul National University /  
Ph.D. Business Administration, University of Massachusetts /  
Head of Finance Office, KT / President & CEO, KTF /  
President & CEO, KT (currently)

e. **Kon-Sik Kim**

LL.B. College of Law, Seoul National University /  
Ph.D. (Law) University of Washington / Visiting Lecturer,  
University of Washington / Professor, College of Law,  
Seoul National University (currently)



### A Strengthened Role for the Board and Increased Independence

The independence and transparency of the Board of Directors are pivotal to establishing sound corporate governance. Since its privatization, KT has implemented a variety of mechanisms to guarantee the independence of its Board. The number of outside directors was adjusted upward, eligibility for nomination for the office of chairman was restricted to outside directors, and both the Audit Committee and the Evaluation and Compensation Committee are now entirely composed of outside directors. To reinforce the independence of the Board, we will submit to shareholder votes at the 2006 Annual Meeting of Shareholders, increase the ratio of outside directors beyond the current level, and ensure the CEO

Nomination Committee and the Outside Director Nomination Committee consist entirely of outside directors. Furthermore, the requirement of a public call for nominations, which is mandatory under current procedures for appointing the CEO, will be revised to allow the Board to suggest qualified candidates at any time and as needed.

### Rated as Korea's Top Corporation in Governance Structure

KT's governance structure incorporates the majority of best practice recommendations for compliance with global standards. The soundness of its governance structure has been acknowledged by some of the most respected ratings institutions, both domestic and foreign. In 2001, KT claimed the number one spot in

S&P's transparency rankings and, in 2003, was selected by the Institutional Investor Research Group (IIRG) as the Best Korean Company in governance structure and the Best Asian Company in IR management. KT has also been chosen as the Best Firm in the governance rating published annually by the Corporate Governance Service, a Korean rating institution, for four consecutive years from 2002 to 2005. And in 2003, KT was the winner of the Grand Auditor Prize in the corporate category.

Good corporate governance helps increase management transparency and efficiency, thereby enhancing shareholder value. Going forward, KT will continue to improve its governance structure in order to maximize value for its shareholders.



#### f. Sang-Hoon Lee

B.A. Engineering, Seoul National University / Ph.D. Electrical Engineering, University of Pennsylvania / Head of Network Service Group, KT / Head of Business Market Group, KT / Senior Executive Vice President, Business Development Group, KT (currently)

#### g. Kook-Hyun Moon

B.A. English, Hankuk University of Foreign Studies / MBA, Seoul National University / co-President, National Trust of Korea / President & CEO, Yuhan Kimberly (currently)

#### h. Thae-Surn Khwag

B.A. History, Columbia University / Ph.D. Law, Harvard University / Deputy Branch Director, Seoul Branch, Baring Securities / President & CEO, SEI Asset Korea (currently)



#### i. Sung-Deuk Park

B.S. Physics, Sungkyunkwan University / M.A. Engineering, Hanyang University / Assistant Secretary, Ministry of Information and Communication / President, National Computerization Agency / President, "Electronic Times" Newspaper (currently)

#### j. Do-Whan Kim

B.A. Business Administration, Sungkyunkwan University / Ph.D. Managerial Economics and Decision Science, Northwestern University / Member, Ministry of Information & Communication Review and Evaluation Committee / Senior Researcher, KISDI / Professor, Sejong University (currently)

#### k. Jeong-Soo Suh

MBA, Yonsei University / Head of Financial Management Office, KT / Head of Planning and Coordination Office, KT / Executive Vice President, Corporate Strategy Group, KT (currently)

# Financial Highlights

Unit : KRW 100 million

Operating Highlights	2005	2004
Net Sales	118,773	118,508
Operating Income	16,599	21,271
Net Income	9,983	12,555
EBITDA	38,315	44,062
Operating Income to Sales	14.0%	17.9%
Net Income to Sales	8.4%	10.6%
EBITDA Margin	32.3%	37.2%
Financial Highlights		
Total Assets	179,365	201,140
Cash and Cash Equivalents	10,438	16,043
Current Assets	34,189	52,957
Total Liabilities	99,270	126,675
Current Ratio	111.0%	86.2%
Debt to Equity Ratio	123.9%	170.1%

# 2005 At a Glance

## January

Selected as number one provider of WiBro (Jan. 20)

## February

Waste Zero Campaign begins (Feb. 1)

## March

Signed MOU with City of Busan on U-City project (March 9)

"KT Rules," code of conduct for KT employees, adopted (March 22)

Ranked #1 in consumer satisfaction (NCSI) fixed-line communications category (March 29)

## April

Selected as the only provider to demonstrate WiBro at Busan APEC Summit (April 8)

## May

Won contract to build U-City in the Dongtan Zone of Hwaseong City (May 25)

## June

Moody's rating of KT upgraded to A3 (June 15)

First company in Korea to be awarded Best Firm in Corporate Governance four consecutive years (June 22)



## July

KT sets up optical network connecting North and South Korea (July 18)

Fitch upgrades its outlook of KT to positive from stable (July 27)

## August

Communications service provided for the 8/15 Video Family Reunion (August 15)

CEO Joong-Soo Nam takes office, proclaims "Wonder Management" strategy (August 19)

## September

Public announcement of the takeover of film production company Sidus FNH (Sept. 7)

Ranked #1 in consumer satisfaction (KCSI) across all ICT categories (Sept. 27)

## October

Pilot BcN (Broadband Convergence Network) service launched (Oct. 6)

CEO Joong-Soo Nam selected as Best Korean CEO (Oct. 19)

## November

World's first-ever mobile Internet (WiBro) piloted (Nov. 14)

Awarded Customer Satisfaction Grand Prize for third consecutive year (Nov. 15)

Integrated system NeOSS launched (Nov. 22)

## December

KT wins FT's Most Innovative Firm Award based on credentials earned over the past 25 years (Dec. 6)

South-North Korea direct telephone service to Kaeseong Industrial Complex established (Dec. 28)

# Life is wonderful **KT**



## "Love you, Dad."



The loud drumming of raindrops on the windowpane of the conference room suddenly demands my attention. On the one hand I think - "What a relief!" - a nice respite from the hot summer sun.

But on the other, I worry about my son at kindergarten. Is he out in the rain? Is he safe inside? What if I am late picking him up? I am distracted by all these worrying thoughts, when I receive a new **Ann Phone** message from my father-in-law. The message reads: "I will pick him up at school today, don't worry." At once, my mind is put at ease and I send a message back, "Love you, Dad."

Life is wonderful . . . KT

KT Ann is an innovative land-line telephone receiver/service package that offers such features as a color LCD monitor, TV remote control, 64 poly ringtones, text-messaging, games and a phone book. It is not only fun, but practical as well.

"Thank you,  
KT Men!"



I have never been so excited to go to school before!

Whenever I hung out with kids from other schools and heard them bragging about their schools' Internet access, I couldn't help but feel a little envious, like I was missing out on something.

But that feeling is over now. After **technicians from KT** visited our school to connect the Internet, I can do all the things that other kids can do - like look things up for my homework assignments and even play games. If I could send a message to the guys that gave my school Internet access, I would say "Thank you, KT Men!"

Life is wonderful... KT

At KT, we make it a priority to ensure that everyone, no matter their income bracket or location, has access to the benefits of ICT. As of the end of 2005, KT has invested a total of KRW 85.8 billion to expand its broadband coverage in rural areas across Korea to 96 percent. We are also currently working on a new project to further expand coverage to include 3,600 villages inhabited by less than 50 households. This project, jointly carried out with the national government and relevant local governments, is scheduled to be completed by 2007.







"You can do it,  
Guys!"



I look down at my swollen leg. I can't believe that I injured myself on the day before the long awaited showdown. It's clear that I won't be able to play in tomorrow's game. And even though I am disappointed, I cross my fingers that I will at least be able to watch the game.

But the next day, Mom tells me that I have a doctor's appointment I can't miss. Sadly, I get in the car. When we are about halfway to the hospital, I get a **WiBro** message from my teammates, "Get well soon! We promise to make you proud!" Immediately, my spirits are lifted! I write back, excitedly, "You can do it guys! I believe in you!"

Life is wonderful . . . KT

With KT's mobile Internet service WiBro, stable access to the Internet is guaranteed, even during high-speed movement (120km/h). No matter the location, you are just a click away from all the information and exciting online content you want.



"Hello! It's Daddy!"



Honestly, at the beginning, the thought of working in North Korea scared me a little. I thought - what if they don't let me leave when the time comes? What about my family? But eventually, I overcame my misgivings and have now been working at the **Kaeseong Industrial Complex** for two years. And even though I am proud of the small role I am playing in the budding mood of reconciliation between the South and the North, there were still some hardships to overcome in the beginning.

One was not being able to talk to my family on the phone. This really pained me, especially on occasions like my daughter's birthday. But that problem has been solved, thanks to KT's direct telephone service. I may work in North Korea, but I now feel totally connected to my family. Now my daughter can hear my voice everyday, "Hello! It's Daddy!"

Life is wonderful ... KT

A momentous occasion occurred in December of 2005 when, for the first time since telephone lines were cut in 1945, KT launched a direct telephone service between South and North Korea, putting an end to 60 years of silence. KT also plans to create an advanced IT infrastructure to serve the Kaeseong Industrial Complex and provide active support for non-governmental cooperation and exchange between the South and the North.







Life is wonderful... KT



## Giving our customers what they want, and more

At KT, we believe being a great company requires facing challenges head-on and not only meeting, but exceeding, our customers' expectations. We achieve this through three elements we deem essential to business: seeing through the customer's eyes, establishing an ownership culture and encouraging openness.

*The Company of*

**INNOVATION**

*We LISTEN to YOU*



## Our Customers' Eyes, Our Eyes

The old adage “the customer is king” is paramount for KT; from the decisions we make to the actions we take, our customers come first. It is our customers, after all, that have truly shaped us into the successful company we are today.

KT's innovative mindset originates from the desire to predict and meet our customers' needs.

From KT's “Internet Family Doctor” – in which our technicians make regular house-calls to our customers – to our “Weekend and Afterhour Customer Service,” KT meets our customers' needs at their convenience. We also offer a “KT Housecall” service for those who live far from a KT-Plaza, and a “Mega-Miz Service” for female customers who prefer a female technician to visit their home. To ensure greater convenience for our customers visiting the KT Plaza, we are preparing an upgrade to nationwide centers with an aim at making them more customer-friendly.

We have also improved KT's customer relations management by expanding resources and overhauling divisions. In fact, not only has KT extensively upgraded its call center, but it has created a division exclusively devoted to enhancing customer value.

Staying in touch with our customers is KT's main priority – and our plan to turn our Voice of Customers (VOC) into a key management resource is further evidence of this fact. In this way, we will be able to continuously implement new processes and systems, immediately addressing any issues raised by our customers.

At KT, the customer – actual or potential – truly is king, and along this line, we continuously renew our pledge to provide “wonderful service” to all of our customers.

## Our Company

Stable, long-term success takes far-sighted planning, and we encourage the members of our organization to think and act with a long-term perspective in mind.

Because each member of KT is regarded as part owner of the organization, they are more likely to invest in tomorrow rather than seek short-term achievements today.

For KT, it is important to nurture a corporate culture where members keep fundamental goals strongly in mind and face new business opportunities well aware of the risks and payoffs. Our employees avoid the pitfalls of profit-driven excesses, always keeping in mind their social responsibilities and duty to the community.

Within this corporate culture, we strongly prize our members' experiences, acquired from utilizing their creativity and facing challenges with confidence. KT rewards these qualities and expands opportunities for professional development by offering various incentives and programs that include language and certification programs, activities to foster team and company commitment, and overseas training programs. Establishing a peaceful work environment and offering a performance bonus program and customized benefit packages also serve as positive incentives for our employees, and have boosted productivity.

A "Life Plan" has also been put in place to manage employee data charting each employee's career from start to retirement. Such a consolidated employee data management system serves to increase employee trust and improve job satisfaction, ultimately enhancing our employees' sense of ownership of the organization.

In order to become "Great KT," we need talented people. As such, KT's human resource development system emphasizes specialization and expertise. Our employees receive job skills training in their respective task areas, and their personal preferences are taken into account in the task assignment process. At KT, we know well that allowing employees to take an active role in determining their contribution to the company leads to increased motivation to not just do the job, but do it to the best of their ability.

With this in mind, it's clear that KT's pool of employees – known for their expertise and strong work ethic – adds to the company's competitive edge.

We GROW *with* YOU







*We* INVITE YOU



## Our Openness is Key

For KT, openness means encouraging a culture of debate that not only allows creativity to thrive, but creates opportunities for mutual growth and win-win cooperation.

Establishing an inter-organizational communication system that values constructive criticism and free debate is of major importance to KT, which is why we have made major strides toward creating a more democratic organizational culture in recent years. Our members respect diversity and difference, and they know how to come together as one and support a decision once it has been reached.

To prevent excessive risk-averseness from interfering with our ability to make the most of business opportunities, KT introduced independent in-house project teams. To help these teams successfully carry out their missions, KT plans to implement a support mechanism in the near future.

KT's win-win cooperation infrastructure is also evidence of our openness, and we will continue to strengthen partnerships with collaborating firms in order to maintain a basis for sustainable growth. But our win-win management strategy is not just limited to labor-management relations or cooperation with partners; it extends into the community as well, with shared growth and prosperity for the community as one of its goals.

### **[ Win-Win Cooperation with Collaborating Firms ]**

KT does not view its collaborating companies simply as partners in limited and specific business areas, but as integral business partners with a potentially decisive effect on the customer value we deliver. In 2006, KT will create a small and medium business support fund, switch to a cash settlement system for accounts with small- and medium-size companies over full balances of payables, and introduce a benefit-sharing program to share the proceeds from improved product quality. All of these moves, we believe, will serve to tremendously energize Korea's IT industry as a whole.

### **[ Win-Win Labor-Management Relationship ]**

Since its privatization in 2002, KT has strived to build a cooperative labor-management relationship, and our efforts bore fruit in 2004 when we were awarded the New Labor-Management Culture Presidential Award. In 2005, we reached a peaceful conclusion in collective bargaining negotiations with the union for the fourth consecutive year, further improving our labor relations. A win-win relationship between labor and management is a vital cornerstone of KT's vision of itself as "Great KT."



Life is wonderful... KT

KT, a far-sighted company with a clear eye on the future

Solid long-term growth is the ultimate goal of KT – and we stand ready and confident to make our investments in future business lines a success, not only for ourselves, but for our customers as well.

*The Company with*

**VISION**





Mobile Internet

## *The new* **FORCE** *on the* **ROAD**

KT's passion for innovation gives new wings to the Internet.

WiBro is a cutting-edge broadband service unaffected by the spatial limitations of fixed-line Internet access, allowing information to be available any-time and anywhere, even in vehicles moving at high speeds (120 km/h). This technology promises to be a new industry paradigm and, best of all, will be offered at extremely affordable rates. KT is nurturing WiBro as a key growth engine for the computing age and is making investments in developing related core technologies, equipment and devices, and specialized services. In fact, upon being appointed as a board member at the WiMax Forum (the first-ever Asian telecom operator on record to claim this position), KT was successful at having IEEE802.16e adopted as the international standard for mobile Internet.

At the 2005 APEC Summit in Busan, KT impressed visitors by demonstrating WiBro through the world's first wireless Triple Play Service (TPS) – a personal broadband service delivering media, communication, and data to a portable device. The event allowed KT to test WiBro's technical readiness for commercialization and to confirm to the international community that WiBro is indeed nearing the time of full commercial rollout.

The official rollout of WiBro is scheduled for the second half of 2006. KT plans to launch a pilot program in the Sinchon and Gangnam areas of Seoul, and Bundang in Gyeonggi-do, prior to its official launch, in order to perform final stability tests. The initial service coverage will be limited to high-demand areas such as Seoul and its satellite cities as well as other large cities. It will later be extended to locations nationwide.

WiBro is not just another new IT service, it is an industry-changing growth engine that will propel Korea's overall IT industry and leverage the country's IT competitiveness, confirming Korea's position as the world leader in the field.









IP Media

## TWO *way* STREET



### A whole new world of multimedia entertainment is waiting for you.

IP Media, unlike traditional broadcasting services, is a TV-based data service delivering a wide range of multimedia content via high-speed IP networks. KT's IP Media offers two-way services such as news, games, e-banking, education and channel services, as well as a large array of data services including Video-on-Demand (VOD) and Electronic Program Guide (EPG).

If commercialized, IP Media will deliver crisper and higher-definition multimedia content than digital CATV, while enabling most PC-based Internet services to be used on a home TV set.

#### **KT, provider of the world's fastest network**

Backed by years of experience as an Internet access provider and coupled with vast technological know-how, KT is well-prepared for the commercial rollout of IP Media. The recently completed KT Media Center unites all of the necessary infrastructure for a successful rollout, including transmission equipment, backbone linkage, and even systems for billing and network management. KT has also upgraded the basic backbone network of IP Media to a premium network guaranteeing quality-of-service (QoS). With the recent extensive upgrades in subscriber networks nationwide (Ntopia, premium-grade VDSL), many users are fully ready to receive KT's IP Media service as soon as it is launched.

KT will take further steps in 2006 to be the first to deliver this new value to Korean homes and lead a mini-cultural revolution by investing some KRW 300 billion in the IP Media business, all while fostering related industry sectors, developing new digital content, and introducing FTTH.

## Conquering Blue Oceans

As digital convergence is considered a keyword of tomorrow's market, it will become more important than ever for providers to supply differentiated content to their customers. With KT's strong brand recognition, vast fixed-mobile network infrastructure, and diversified customer base, we possess the key capabilities required to successfully foray into the digital content business. In fact, we have already established an ever-expanding list of advanced digital content platforms which include WiBro, IP Media and SkyLife. With an eye toward successfully tapping into the tremendous business potential of the digital content field, KT will carefully allocate resources according to a long-term roadmap.

In addition, from 2005, KT has been operating the groupwide "KT Group Content Business Council" as a way to capitalize on synergies among our affiliates in the digital content field and maximize the effect of investment. The members of the council have been active, with KTF taking a stake in the Showbox Film Fund and KTH investing in the entertainment industry. KT has also acquired Sidus FNH, entered into a MOU with EBS on cooperation in the e-learning business, and established various other strategic partnerships.

Overall, important progress is being made, bringing us one step closer to supplying our customers with quality digital content ideally integrated with our access services. The prospect of becoming a total value provider for our customers brings us a sincere feeling of satisfaction.



Digital Contents

*The PULSE of the MARKET*







## Our Goal is to Make Life Better for You

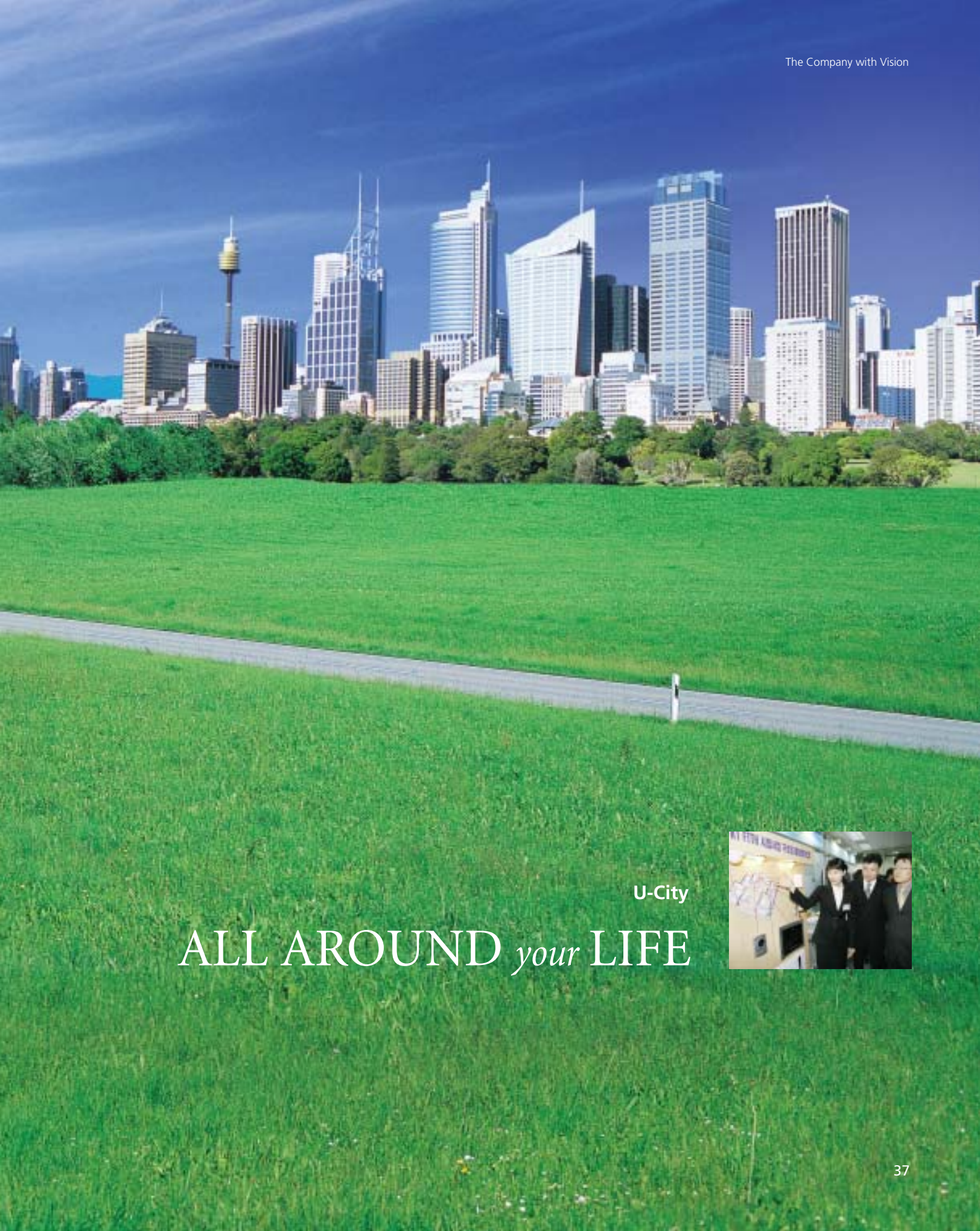
As an intelligent next generation city, "U-City" provides a living environment in which essential urban functions are upgraded through the innovative use of technology. It is a city that boasts an ideal combination of advanced ICT infrastructure and services, making life better, safer, and more convenient.

KT has been busily developing such core solutions for U-City as U-Home, U-Traffic, U-Public and U-Business, all delivered to consumers through such cutting-edge network infrastructures as BcN (Broadband Convergence Network), FTTH (Fiber To The Home), and USN (Ubiquitous Sensor Network).

Specifically, U-Home is a set of services geared toward making life in the home more convenient; U-Traffic enables users to easily monitor traffic flow so that moving around the city is safer and more enjoyable; U-Public offers automated features which make it possible to control and monitor urban facilities in the city with ease; and U-Business refers to technology-assisted intelligent logistics systems and building management systems.

In 2005, KT entered into MOUs with the municipalities of Korea's six metropolitan cities and with other cities like Paju, Yongin Heungdeok and Hwaseong Dongtan, and began tackling its first U-City projects. As a pioneer in this field, KT fulfilled its obligations and impressed the industry with its technology. In 2006, KT plans to further expand project regions and strengthen capabilities by developing new application service solutions.





U-City

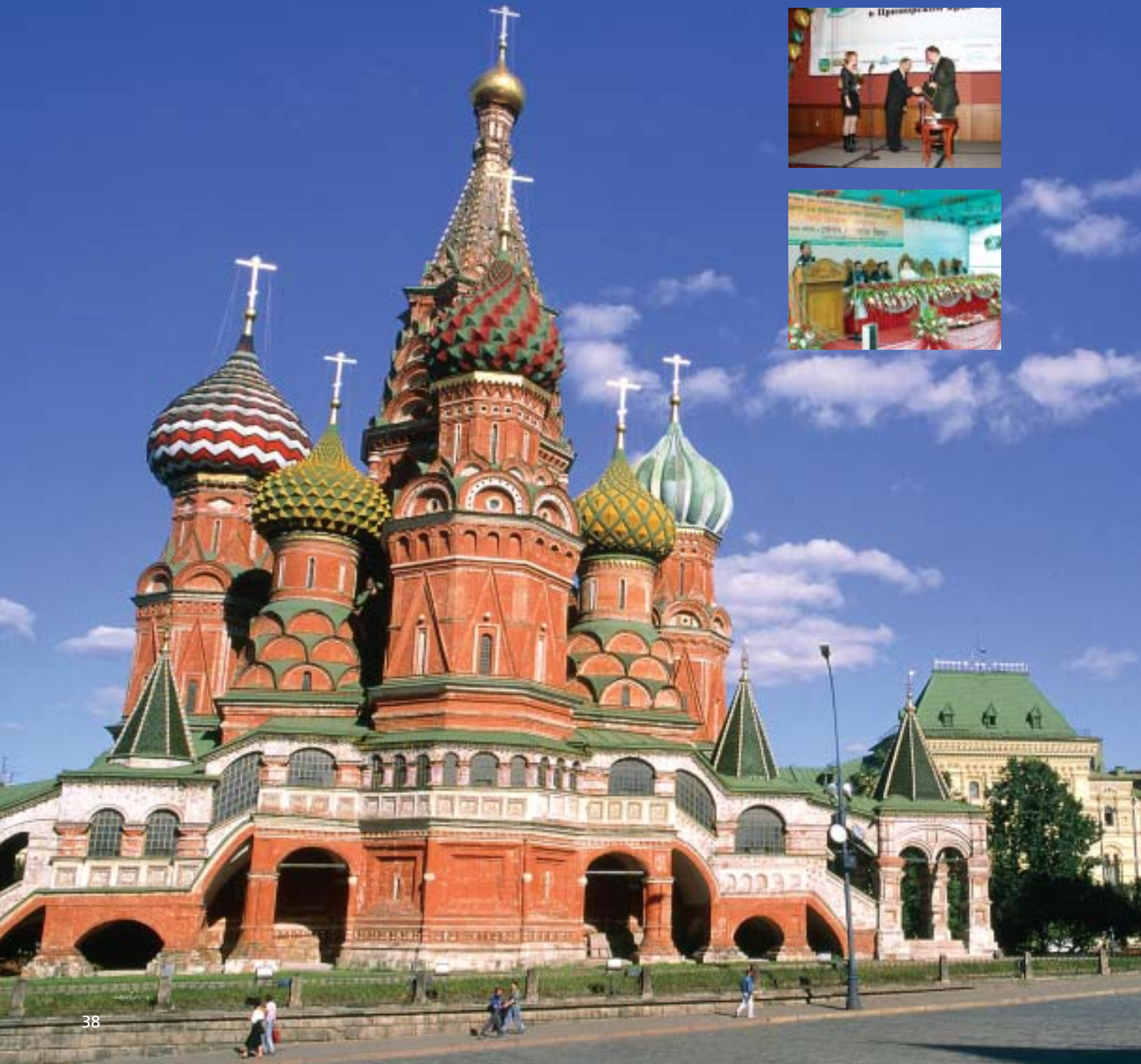
ALL AROUND *your* LIFE





# Getting the whole **WORLD** **CONNECTED**

Overseas Operations





## Entering the Global Market with Confidence and Ambition.

In recent years, KT has undertaken an increasing number of overseas projects, offering its top-notch broadband solutions and operation expertise to foreign clients. Thus far, KT's list of major communications infrastructure projects is expanding, and the company has become an active provider of consulting and IT solutions.

### Overseas Investment Projects

After a series of successful investments in overseas firms and projects like Russia's NTC, Mongolia's MT, and the telecommunications network modernization project in Vietnam, KT is looking to stake claims in broadband projects in other emerging Internet access markets.

KT also plans to seek out investment opportunities in overseas mobile communications markets that show strong growth potential and, at the same time, invest in existing projects in order to maximize profit.

### Overseas IT Business

KT has made inroads into overseas IT markets by commercially distributing its solution platforms, an area in which it possesses strong global competitiveness. We are carving out our place in world markets by distributing through multinational firms that are our strategic partners and through the global marketing operations of our overseas offices. Examples of some of these projects include the successful completion of a telecom network project for the Bangladesh Telegraph and Telephone Board (BTTB), which involved installation of 125,000 PSTN lines; broadband network projects in Vietnam and Thailand; and the export of solutions including NeOSS, a network management solution, to markets around the globe. KT is also looking to contribute to telecom network construction projects and IT system projects such as e-government projects in developing countries that are being supported through various financing packages, including the Korean government's economic development cooperation funds.

### Global Service

KT's global network provides a competitive global data service through the linking of overseas nodes (POP) in countries like the United States, the United Kingdom, Hong Kong, and Singapore. To underpin our global service operations with new growth engines, we are strengthening our hubbing capabilities. KT is also actively developing new revenue sources and launching into the global retail and content distribution business in partnership with overseas suppliers.

- **Russia New Telephone Company (NTC)**

NTC is a mobile communications company located in Russia's Primorsky Krai in which KT owns a 72.5% stake. KT's management takeover in 1997 resulted in numerous innovations for NTC including improved call quality and a differentiated portfolio of value-added services. On the growth path for several years now, NTC in 2005 posted USD 80 million in sales and USD 30 million in net income.

- **Mongolia Telecom (MT)**

KT became the second largest shareholder of MT in 1995 with an investment of USD 4.5 million. Since then, KT has offered management consulting through its experts dispatched to MT and has invited MT's employees to Korea for training. These measures have contributed tremendously to the growth of Mongolia's telecom industry.

- **Telecom Network Modernization Project in Vietnam**

Since 1997, KT has been carrying out a telecom network modernization project in four provinces within the Northern Special Economic Zone in Vietnam under a business cooperation contract with the Vietnam National Posts and Telecommunications Corporation (VNPT). KT injected a total of USD 40 million in the project and, after the completion of the telecom networks, used part of the income to build three elementary schools for Vietnamese children, fortifying KT's image as a global firm.





Life is wonderful... **KT**

## Reaching beyond your expectations

In 2005, KT further expanded its ICT infrastructure and conducted an extensive series of initiatives for internal innovation. In 2006, we will continue to “pleasantly surprise” our customers by reaching beyond their expectations and consolidating foundations for future growth.

*The Company that*

**PERFORMS**



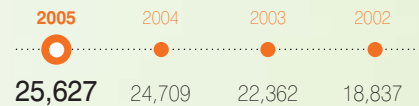
# the PREMIER SPEED

## Megapass

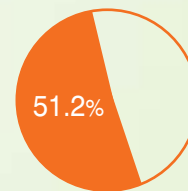
Megapass is KT's broadband Internet brand, pivotal to the impressive broadband penetration rate of Korea and the country's earning the nickname "Broadband Wonderland." Thanks to a wide variety of access technologies including xDSL (Digital Subscriber Line), WLAN, FTTH and satellites, Megapass is now available to 95% of the Korean territory. With its rich array of value-added services targeting the different lifestyles of customers, Megapass is the uncontested leader of Internet culture in Korea, with a customer base that continues to grow despite a slowdown in the overall broadband Internet market. Megapass added an impressive 200,000 more subscribers in 2005 alone, with its market share now standing at 51.4%. Efforts to increase Average Revenue Per User (ARPU), develop new markets, and implement a customer-oriented marketing strategy have handsomely paid off.

Megapass has recently undergone upgrades in its network infrastructure to support next-generation business lines, thus consolidating its position as the power brand. For the year 2006, KT will concentrate its marketing efforts on intensely competitive markets (Seoul and the five metropolitan cities), and will also aim to develop high-quality premium services and differentiated products. We will also make substantial improvements to Nespot, the wireless broadband Internet service for home, office, school, movie theaters, and other public sites. By extending roaming areas overseas and by introducing Web authentication in places like airports, Nespot will become more flexible and convenient. Finally, KT will provide support for the development of swing phones that combine PSP, PMP, and MP3 for Nespot, and link this service with new services like WiBro, as a way to continuously improve its usability and accessibility.

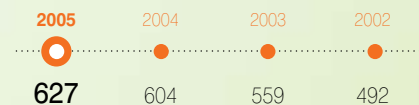
Internet Sales (unit : KRW 100 million)



Megapass Market Share (end of 2005)



Number of Megapass Subscribers (unit : 10,000)







### Local and Long Distance Telephone Service

In a bid to overcome the current slump in the fixed-line sector, KT is putting forth efforts to develop niche markets by introducing innovative, value-added services such as ring-back tone services. To stimulate fixed-line demand, KT extended our marketing activities for Ann, our flagship land-line telephone product and receiver set that boasts text-messaging capability, doubles as a TV remote control, and comes equipped with a color LCD display, 64-poly ring-tones and phone book. Designing targeted services for segmented groups of customers is also an important part of our efforts.

### International Telephone Service

KT's foremost priority in the international telephone service business is to guarantee stable services and superior call quality for calls to and from any place in the world. For stronger price competitiveness, we offer a broad range of discount programs and in response to anticipated market shrinkage, we are preparing a bevy of value-added services like international SMS and international video phone. We will also launch active advertising and information campaigns to drive up sales.

### Intelligent Network Service

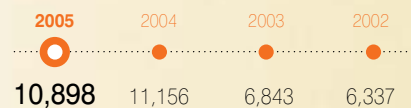
Launched in 1995, the Intelligent Network Service offers special features like nationwide access numbers (1544) and collect call numbers (1541). Since 2003, this service has faced a downturn, and KT has actively addressed this situation by improving and expanding its service systems, and by developing a new marketing system enabling access to comprehensive business data to facilitate marketing operations at sales centers.

In 2006, KT will release two new services. The first is Nowcall, a callback service used when the line is busy at either end that automatically connects the parties when the line is idle; and the second is Bizcal, a service that links instant messengers with the phone. At the same time, we will step up efforts to boost sales of Ringo, the waiting tone service, and other existing service products. Through these new sources of revenue, an aggressive marketing strategy, and a focus on value-added businesses with strong growth potential, KT intends to breathe new life into the Intelligent Network this year.

### Let's 010

Let's 010 enables KT to resell mobile communications services using facilities owned by its subsidiary, KTF. The agreement with KTF allows KT to independently manage key areas of the business, including provision of service, pricing, billing and payment collection, and management of the customer relationship. Subscribers can expect to enjoy the same high call quality and value-added services as they would with KTF. KT's plan is to bundle Let's 010 with other products to develop it into a full fixed-mobile convergence service. KT is also developing other digital convergence products, such as One Phone, which provides the ability to make land-line calls and mobile calls.

Let's 010 Sales (unit : KRW 100 million)



## through the TELEPHONE

Telephone Sales (unit : KRW 100 million)



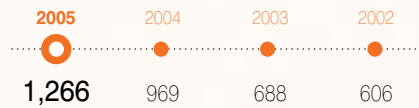




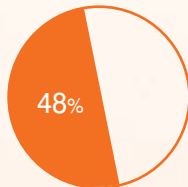
*more* SOLUTIONS  
*on the* NET



KT-IDC Sales (unit : KRW 100 million)



KT-IDC Share of Market (end of 2005)



### KT-IDC

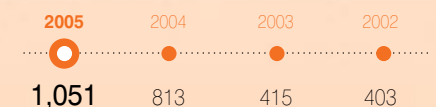
KT-IDC is an Internet data center hosting the computing systems of content providers and enterprise customers for Web-based data delivery. In addition to network and server-based services, KT-IDC offers a vast array of other applied services such as MSP, messaging and call center, and has occupied the largest market share for the past four years. With its share standing at 48% in 2005, KT-IDC has been growing at an impressive rate of over 30% every year despite the slowdown in the maturing market, and posted an operating income-to-sales ratio of 16%. Through profit-driven management and a shift toward high value-added services like system services, we will ensure continued growth for this business. To guarantee stronger stability of service quality, KT will also improve its systems and expand its system specialist team in order to serve a greater number of enterprise customers.

In 2006, we will further consolidate our market leadership thanks to the competitive advantage provided by the outstanding quality of KT's network products. Our goals for 2006 are driving up KT-IDC's market share to 51% and sales to KRW 164.1 billion. In the longer term, we plan to make forays into overseas markets, in particular North America, Japan and China.

### bizmeka

bizmeka is a service that provides Web-based delivery of business solutions to enterprise customers at highly affordable rates. It includes networking, hardware, software packages, and consulting. We offer a broad portfolio of customized services for businesses of different sizes and types, and tailor our advice according to the specific characteristics of sectors and the functions within a firm. Recording KRW 105.1 billion in sales in 2005, bizmeka has achieved steady growth year after year. In the coming years, we plan to extend the scope of bizmeka from its current e-commerce solution-oriented model to one that includes the mechanical engineering, medical and distribution industries and more.

bizmeka Sales (unit : KRW 100 million)





*for your* BUSINESS



### KT Leased Lines

KT's leased line service is the perfect solution for businesses needing a stable enterprise data network. KT offers domestic leased lines and international leased lines, which, in turn, divide into regular leased lines and broadcasting lines. KT's diverse set of routes, including optical cable, wireless, and satellite services, allows for stable transmission of data at all times. With the introduction of new wireless data services and communications technologies like WiBro, WCDMA and MSPP-based EOS services, the leased line market has substantially gained in size over recent years. At the same time, competition for the share of this market is intensifying and, in response, KT is accelerating efforts to enhance the quality of services and improve network quality. We are also exploring new markets like CCTV.

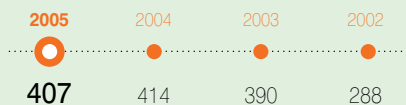
KT Leased Line Sales (unit : KRW 100 million)



### KT VPN

KT VPN products are enterprise network solutions providing Intranet and Internet connections between company head offices and their branches. Offering a variety of access types (TDM, M/E, xDSL), KT VPN comes with a wide range of value-added services as well. Customers can choose between Premium VPN service for internal communications via corporate leased line, and X4Biz, a total package bundled with line and equipment providing an xDSL connection and using IPSec security technology. Both products offer strong security features. In fact, KT VPN is also Korea's largest-scale network security service provider. With KT's MPLS-VPN, implementing IT solutions is simple and easy, enabling enterprise subscribers to use services like VoIP, video conferencing and security content over the network. In the near future, KT will introduce new services like CNM, TMS and COS, as well as SLA – which provides customer compensation in the event we fail to provide the quality of service to which we have pledged.

KT VPN Sales (unit : KRW 100 million)

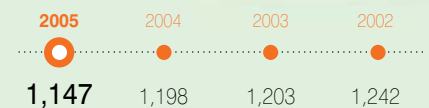


### Satellite Businesses

Following the 1995 launch of Koreasat I, Koreasat II and III were successfully sent into orbit, and Koreasat V is scheduled for launch in July of 2006. Satellite services offered by KT currently include the lease of satellite transmission equipment for providers of value-added services like satellite broadcaster SkyLife and CATV transmission, as well as CATV programming distribution, fixed satellite video service, lease of satellite links (VSAT) and satellite news gathering (SNG).

The year 2005 marked a decrease in the volume of transmission equipment leased due to a decline in service providers' incomes, thus putting a damper on growth in this area. But with the anticipated launch of Koreasat V in 2006, a powerful satellite which will cover Japan, Taiwan, the Philippines and certain areas of China, we expect a big boost in satellite broadcasting and the HDTV market in Korea, and a drive-up of demand in overseas transmission.

Satellite Sales (unit : KRW 100 million)



## KT R&D, the force driving "Great KT"

Today's business environment is characterized by globalization, and in order to compete and grow, a company must draw strength from R&D. KT's R&D activities are customer-based, with feedback from our customers used as a guide for all of our research efforts.

Behind Korea's incredible emergence as the country with both the world's highest broadband penetration rate ranked second in worldwide Internet use, is countless hours of hard work by the researchers and developers of the KT R&D Center. Since the opening of Korea's first commercial Internet service "KORNET" by KT, the R&D center has added to its credits such history-making achievements as the development of soft switch, the nationwide rollout of NeOSS and the pilot launch of WiBro at the Busan APEC Summit. The center's contribution to Korea's IT landscape has been truly immense.

To further expand existing businesses and markets and fuel next-generation engines to propel future growth, KT is currently developing customizable context-aware services and new services to be offered from its future branch offices, as well as core U-City technologies, and is launching overseas marketing efforts for technological solutions.

- **Future Technology Lab**

This Lab is dedicated to research in leading-edge technologies, which will be defining forces of tomorrow's ICT, core technologies for computing such as USN/Rfid and voice and speech essential for the development of a more user-friendly human interface. Designing next-generation business models is also an important part of its duties.

- **Infra Lab**

In charge of conducting research in WiBro and next-generation wireless technologies as well as core source technologies in the FTTH field, this Lab develops next-generation network services and systems, as well as the business models used for commercialization of these services and systems.

- **Convergence BU**

In addition to fixed-mobile convergence technologies, this BU is also responsible for research in IP Media, VoIP, Digital Home and Intelligent Network services and other innovative convergence services.

- **BcN BU**

Dedicated to the development of next-generation BcN network technologies, members of this BU also develop BcN-based application services and offer consulting services.

- **Network Technology Lab**

This Lab's responsibilities include conducting research for development of company-wide network technology operation and management systems, implementing improvements to the quality of customer service and designing a management environment able to maximize OPEX, in collaboration with the Commercialization Research Lab.

- **Marketing Lab**

The principal responsibilities include designing marketing strategies for already commercialized products, performing market analysis for new products and services yet to be released, and conducting customer analysis for narrowing the gap between technology and customers.

- **Management Research Lab**

As KT's think-tank, the Lab offers management consulting for the KT Group, analyzes management data and performs leading research.

# FUNDAMENTALS

*in our business*









Life is wonderful... KT

On every face, a smile  
In every heart, hope

At KT, we know how important it is for the future of Korea to instill in our youth a sense of love for the nation and pride in their heritage. That's what our community outreach programs are all about. Investing in our future, and creating a Wonder**full** Korea.

*The Company with*

**SOCIAL  
RESPONSIBILITY**

KT is active in its efforts to bridge the digital divide, providing access to the benefits of the ICT revolution to all Koreans and creating a healthy information culture and environment.

## Wonderfull FUTURE



### From Kaeseong to Dokdo

In its desire to meet the full spectrum of communication needs of all Korean people from fixed-line calls to broadband Internet access, KT, in a landmark move, began a direct telephone service connecting the Kaeseong Industrial Complex in North Korea to destinations in the South. To protect the Dokdo Islands, an object of increasingly contentious territorial claim between Korea and Japan, KT performed an extensive overhaul of the local wireless communications network.

### Digital Benefits for All

To guarantee access to top-quality ICT services to all Koreans and fill the digital divide, KT has been working to provide universal services to remote areas thus far denied the benefits of digital communications. Over the past four years, KT has invested a total of KRW 85.8 billion in broadband infrastructure projects, extending coverage to 96% of rural communities in Korea. By 2007, through a project jointly carried out with the national government and local authorities, KT will provide broadband access to 3,600 sparsely-populated villages with 50 or fewer households. For island communities, KT provides ship-to-shore wireless communications and inter-island communications. In 2005, as another measure to reduce the digital divide, KT offered discount programs amounting to a total of KRW 46.2 billion to 1,170,000 low-income subscribers.

### Korea, the IT Power

Since 1988, KT has been a sponsor for IT-major college students of good standing. The IT Master Scholarship has benefited students from 120 universities nationwide, and the KT Junior Nobel Prize, a recent addition to our programs to support youth, collaborated with the Intel International Science and Engineering Fair in selecting Korean participants for the contest.

To protect our youth and general users from such negative aspects of the Internet as harmful or offensive websites, Internet addiction, and cyber crimes, and to make the Internet a safer place, KT offers services like Clean-I to filter out undesirable content, and conducts information campaigns to educate the public on Internet etiquette and ways to protect their computers from hacking attempts or viruses. In fact, KT operates Korea's largest Internet security patrol center and to reduce subscribers' exposure to viruses and worms, uses a system to block spam and other suspicious or potentially-dangerous email.





KT's 10,000 member-strong volunteer corps is actively involved in a variety of corporate citizenship activities, including outreach programs. Our members lend a helping hand to those less fortunate wherever and whenever it is needed.

## Wonderfull LIFE

KT's volunteers come from its 350 offices across Korea and are committed to improving the welfare of their respective communities, welcoming opportunities to contribute to their towns and neighborhoods. In 2005, using the employee-contributed Neighborhood Fund and with a matching grant of KRW 3 billion from the company, these volunteers effectively assisted recovery efforts in areas stricken by Typhoon Nabi, built and donated an e-learning center to an elementary school in tsunami-devastated Phuket, and provided farming help. KT volunteers came to the aid of the community on 2,800 occasions last year alone.

### Spreading Hope

In order for a business to thrive, the society in which it exists must be healthy and prosperous. Along these lines, KT has always generously invested in the future of our youth. An example of our efforts can be found in the program for hearing-impaired youth, started in 2003, in which KT has been financing cochlea implants and rehabilitation therapies for children of low-income families and providing digital hearing aids. Moreover, KT sponsors overseas training for educators to help improve classroom learning in schools by providing teachers with the opportunities to gain direct, first-hand experience in world economy, culture and history.





At KT, we are well aware of our responsibility to preserve and protect the environment for future generations. With this in mind, KT puts forth great efforts to ensure energy and resource saving is practiced at all levels of its operations, and that environmental factors are regarded as important considerations in planning and decision-making processes.

## *Wonderfull* NATURE

Committed to bequeathing a better world to our children, KT is a supporter and participant of the National Trust movement. With ongoing resource recycling programs implemented across its organization, KT is making efforts to build networks that are more environment-friendly. We took the cause of safeguarding the natural environment and our cultural heritage from destruction into our own hands by restoring a historic home in Jejang Village of Donggang in Gangwon-do, and by engaging in activities to rescue wildlife and preserve the ecosystems of Korea's shores and waterways.

Modems, cell phones, and other communications devices surrendered by customers are managed using a comprehensive database, and are tested for reusability, sorted and recycled. KT's base stations, communication poles, pipes, cable and other installations are placed in locations and in manners that preserve the environmental integrity of the surroundings. And to help recycling take root in everyday life, we run a recycling center in Bundang, Gyeonggi-do, where local residents can sell household items they no longer use, donating part of the proceeds to those less fortunate in the community.



### **Saving Is Caring**

Saving energy and resources not only makes reserves last longer, but also minimizes the environmental destruction involved in their exploitation. Through programs like the paperless campaign and energy saving campaign, people at KT are making a real difference. Under the company-wide energy saving campaign, KT has made the use of energy-efficient devices and equipment mandatory in all its business locations, ensuring compliance with this rule by scheduling regular energy inspection days.

Commitment to transparency and contribution toward a healthier market system are the marks of all great companies.

## *Wonderfull* SOCIETY

### **A Premier Ethical Standard for a Premier Company**

In January of 2003, KT made public its commitment to ethical management by adopting the KT Code of Ethics. In 2005, in a bid to further enhance transparency, KT introduced a reward program to encourage employees to report violations, the first of its kind in the telecom industry. As well, to provide our employees with clear ethical guidelines, we issued a code of conduct, and now hold ethics seminars and workshops.

### **Embracing Fair Competition**

Rapid evolution in the telecom industry over recent decades has led to profound changes in the ways that operators compete. In 2005, KT was made to realize the full force of such changes. Recognizing the necessity for realigning its competition strategies to the new requirements of fair competition, KT has made a pledge to abide by these new principles and integrate them across all business lines. The key contents of the self-compliance program recommended by the Fair Trade Commission have already been incorporated into the company rules, which should produce concrete differences in our competition practices. We have also put into place a Fair Competition Review Center, where new business projects are submitted for deliberation by a specialist panel to preempt any elements that are potentially anticompetitive. And to help create a mindset conducive to fair competition in our organization, we provide training to our fair competition officers as well as to our general employees.

### **A Perfect Service System**

KT's communication infrastructure is a backbone supporting free flow of information in our country. It is routinely monitored and inspected for integrity and efficiency, and upgraded to ensure flexibly and quick adaptation to new technological paradigms whenever a shift occurs.

Last year, to further improve the stability of its networks, KT invested close to KRW 20 billion in expansion and improvement of infrastructure and enhancement of network operation, while beefing up its human resource competitiveness by reinforcing its technology staff and introducing a technical worker program.









Life is wonderful... **KT**



2005 FINANCIALS

## Management's Discussion & Analysis

This section presents an analysis of KT's financial conditions and results of operations during the fiscal year ended on December 31st, 2005. The financial ratios are calculated from information provided by financial statements.

### Results of operations

#### ① Revenue

Revenue increased 0.2% from KRW 11.8508 trillion in 2004 to KRW 11.8773 trillion in 2005. By business segment, while fixed-line revenue and LM service revenue slightly decreased in 2005 from the previous year, revenues from Internet access service and wireless service rose by 5.6% and 2.7%, respectively.

In detail, Internet access service revenue reached KRW 2.8046 trillion in 2005 and accounted for 23.6% of the total revenue, once again marking growth in its proportion. Our Megapass (wired Internet access service) customer base increased to KRW 6.27 million, a 3.3% increase over the previous year; and Nespot (wireless Internet access service) saw a 19.0% increase in its customer base to 500,000. Revenue from wired Internet

access service amounted to KRW 2.1494 trillion, an increase of 3.3% compared to the previous year, and revenue from wireless Internet access reached KRW 110.8 billion, an increase of 28.4%.

In wireless service, our customer base grew by 11.7% to KRW 2.49 million in 2005, while revenue increased by 2.7% to KRW 1.1553 trillion. As a result of declines in the fixed-line market, fixed-line revenue decreased by 1.9% to KRW 4.3966 trillion and accounted for 37% of the total revenue. LM service revenue also fell by 5.8% to KRW 1.7735 trillion due to a decrease in the traffic of calls, reduced charges, and an increase in the number of free calls.

Unit : KRW 100 million

Business segment	FY 2005	% of total revenue	FY2004	% of total revenue	Increase (decrease)
Fixed line	43,966	37.0%	44,825	37.8%	-1.9%
Internet access service	28,046	23.6%	26,547	22.4%	5.6%
LM service	17,735	15.0%	18,826	15.9%	-5.8%
Wireless service	11,553	9.7%	11,253	9.5%	2.7%
Data service	13,304	11.2%	13,481	11.4%	-1.3%
Others	4,169	3.5%	3,576	3.0%	16.6%
<b>Total revenue</b>	<b>118,773</b>	<b>100%</b>	<b>118,508</b>	<b>100%</b>	<b>0.2%</b>

#### ② Income & Loss

##### Operating expense and operating income

Operating income amounted to KRW 1.6599 trillion in 2005, a 22% decline over the previous year, as operating expenses rose and outpaced the increase in revenue. Changes in operating expenses include a decrease of KRW 181.3 billion in bad debt expenses, a decrease of KRW 107.6 billion in depreciation, an increase of KRW 199.2 billion in salaries and bonuses, an increase of KRW 170.5 billion in service acquisition, and an increase of KRW 72.7 billion in sales commission.

##### Non-operating income (expense) and Ordinary income

Non-operating income came to KRW 551.7 billion in 2005, a 46.3% decrease over the previous year, and non-operating expenses amounted to KRW 852.4 billion, a 37.1% decrease. Non-operating income consists of valua-

tion gain on equity investment (KRW 124.1 billion), gain on disposal of investment securities (KRW 56.7 billion), gain on foreign currency transactions (KRW 53.0 billion) and others (KRW 113.9 billion). Decreased non-operating income is mainly attributed to a reduction of KRW 536.1 billion in gain on foreign currency transactions.

Non-operating expenses consist of other bad debt expense (KRW 65.5 billion), valuation loss on equity investment (KRW 72 billion), and loss on disposal of tangible assets (KRW 44.8 billion). Total non-operating expense was reduced by 37.1% from the previous year as valuation loss on equity investment and valuation loss on cross-currency interest rate swaps decreased by KRW 202.7 billion and KRW 100 billion, respectively. Due to the lower operating income than the previous year, ordinary income also fell by 24.5% to KRW 135.9 billion.

## Income statement (highlights)

Unit : KRW million

Description	FY 2005	FY 2004	Change (amount)	Change (%)
Revenue	11,877,272	11,850,819	26,453	0.2%
Operating expense	10,217,389	9,723,700	493,689	5.1%
Operating income	1,659,883	2,127,119	-467,236	-22.0%
Operating income margin	14.0%	17.9%		-22.1%
Non-operating income	551,721	1,027,562	-475,841	-46.3%
Non-operating expense	852,436	1,355,156	-502,720	-37.1%
Ordinary income	1,359,168	1,799,525	-440,357	-24.5%
Income before income tax expense	1,359,168	1,799,525	-440,357	-24.5%
Income tax expense	360,865	544,003	-183,138	-33.7%
Net income	998,303	1,255,522	-257,219	-20.5%

Description	FY 2005	FY 2004
EBITDA	3.8315 trillion	4.4062 trillion
EBITDA (%)	32.3%	37.2%

### Income tax expense/ Net income

Net income came to KRW 998.3 billion, a decrease of 20.5% over the previous year. A lower tax rate reduced the proportion of income tax expense to 26.6% of income before income tax in 2005, from 30.2% in 2004. The net income margin dropped to 8.4% from 10.6% during the same period.

## Balance sheet (highlights)

Unit : KRW million

Description	FY 2005	FY 2004	Change (amount)	(%)
Assets	17,936,509	20,114,036	-2,177,527	-10.8%
Current assets	3,418,917	5,295,663	-1,876,746	-35.4%
Fixed assets	14,517,592	14,818,373	-300,781	-2.0%
Investment assets	3,662,971	3,882,208	-219,237	-5.6%
Tangible assets	10,411,523	10,637,059	-225,536	-2.1%
Intangible assets	443,098	299,106	143,992	48.1%
Liabilities	9,927,041	12,667,523	-2,740,482	-21.6%
Current liabilities	3,079,999	6,144,047	-3,064,048	-49.9%
Fixed liabilities	6,847,041	6,523,476	323,566	5.0%
Stockholders' equity	8,009,468	7,446,513	562,955	7.6%
Total liabilities and stockholders' equity	17,936,509	20,114,036	-2,177,527	-10.8%



## Statement of cash flows (highlights)

Unit : KRW

Description	2005
Cash and cash equivalents at the beginning of the period	1.6043 trillion
Operating activities	3.6257 trillion
Investing activities (-)	592.4 billion
Financial activities (-)	3.5938 trillion
Net changes in cash and cash equivalents (-)	560.5 billion
Cash and cash equivalents at the end of the period	1.0438 trillion

## Major financial ratios

Description	Formula	Current	Previous
<b>Stability</b>			
Liquidity ratio	(Current assets/Current liabilities) X100	111.0%	86.2%
Debt-to-equity ratio	(Total liabilities/Shareholders equity) X100	123.9%	170.1%
Debt ratio	(Total debt/Total assets) X100	34.5%	44.8%
Interest coverage	Operating income/interest expense	4.0 times	4.7 times
<b>Profitability</b>			
Operating income margin	(Operating income/Sales) X100	14.0%	17.9%
Net income margin	(Net income/Sales) X100	8.4%	10.6%
Return on assets	(Net income/Total assets) X100	5.2%	6.3%
Return on equity	(Net income/Shareholders equity) X100	12.9%	17.6%
Cash flow from operations to total assets	(Cash flow from operating activities/total assets) X100	19.1%	19.0%
<b>Growth and activity</b>			
Sales growth ratio	[(Sales of current year/ Sales of previous year) X100]-100	0.2%	2.4%
Operating income growth ratio	[(Operating income of current year/ Operating income of previous year) X100]-100	-22.0%	71.1%
Net income growth ratio	[(Net income of current year/ Net income of previous year) X100]-100	-20.5%	51.3%
Growth in total assets	[(Total assets at the end of current period/ Total assets at the end of previous period) X100]-100	-10.8%	2.8%
Asset turnover ratio	Sales [(Total assets at the beginning of period + Total assets at the end of period)/2]	0.6	0.6

Unit : KRW million

**Balance Sheets**

December 31, 2004 and 2005

<b>Assets</b>	<b>2004</b>	<b>2005</b>
Current assets:		
Cash and cash equivalents	₩ 1,604,267	1,043,780
Short-term financial instruments	926,872	136,531
Current portion of investment securities :		
Available-for-sale securities	593,528	1
Held-to-maturity securities	1,522	-
Notes and accounts receivable - trade, less allowance for doubtful accounts of ₩530,110 in 2004 and ₩434,047 in 2005	1,575,906	1,514,514
Accounts receivable - other, less allowance for doubtful accounts of ₩66,967 in 2004 and ₩105,040 in 2005	294,869	194,771
Inventories	100,680	115,884
Other current assets	198,019	413,436
<b>Total current assets</b>	<b>5,295,663</b>	<b>3,418,917</b>
Investment securities:		
Available-for-sale securities	124,944	10,412
Held-to-maturity securities	1,839	-
Equity securities of affiliates	2,845,405	3,131,312
<b>Total investment securities</b>	<b>2,972,188</b>	<b>3,141,724</b>
Property, plant and equipment, at cost	34,639,070	35,815,351
Less accumulated depreciation	(24,002,011)	(25,403,828)
<b>Net property, plant and equipment</b>	<b>10,637,059</b>	<b>10,411,523</b>
Other assets	1,209,126	964,345
	₩ 20,114,036	17,936,509
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Notes and accounts payable - trade	₩ 683,539	735,257
Current portion of long-term debt	3,986,227	800,214
Accounts payable - other	605,527	737,821
Advance receipts from customers	98,006	70,780
Accrued expenses	132,741	294,098
Withholdings	63,262	54,730
Income taxes payable	258,627	109,154
Other current liabilities	316,118	277,945
<b>Total current liabilities</b>	<b>6,144,047</b>	<b>3,079,999</b>

Unit : KRW million

	2004	2005
Long-term debt, excluding current portion	5,014,800	5,341,211
Refundable deposits for telephone installation	1,087,276	958,885
Accrual for retirement and severance benefits, net	263,531	331,388
Other long-term liabilities	157,869	215,557
<b>Total liabilities</b>	<b>12,667,523</b>	<b>9,927,040</b>
Stockholders' equity:		
Common stock of ₩5,000 par value		
Authorized - 1,000,000,000 shares		
Issued - 284,849,400 shares in 2004 and 2005	1,560,998	1,560,998
Capital surplus	1,440,258	1,440,258
Retained earnings:		
Appropriated	5,431,862	5,811,862
Unappropriated	2,967,275	2,953,301
Capital adjustments:		
Treasury stock	(3,962,568)	(3,840,485)
Unrealized gains on		
available-for-sale securities, net	3,053	-
Unrealized gains on		
equity securities of affiliates, net	12,824	113,338
Stock options	9,199	8,628
Loss on retirement of treasury stock	(16,388)	(38,431)
<b>Total stockholders' equity</b>	<b>7,446,513</b>	<b>8,009,469</b>
Commitments and contingencies		
	₩ 20,114,036	17,936,509

## Statements of Earnings

December 31, 2004 and 2005

	2004	2005
Operating revenues	₩ 11,850,819	11,877,272
Operating expenses	9,723,700	10,217,389
<b>Operating income</b>	<b>2,127,119</b>	<b>1,659,883</b>
Other income (expense):		
Interest income	102,398	77,983
Interest expense	(450,740)	(417,803)
Equity in gains (losses) of affiliates, net	(235,514)	52,156
Foreign currency transactions and translation gains, net	510,075	48,656
Loss on disposition of property, plant and equipment, net	(86,938)	(32,496)
Gain (loss) on disposition of available-for-sale securities, net	(14,131)	55,016
Contributions received for losses on universal		
telecommunications services	105,867	11,194
Contribution payments for research and development and donations	(127,320)	(120,076)

Unit : KRW million

	2004	2005
Prior year's additional income tax payment, net	(273)	(17,261)
Derivatives transaction and valuation gains (losses), net	(145,408)	1,867
Reversal of customer call bonus accrual	-	31,882
Other, net	14,390	8,167
	(327,594)	(300,715)
Earnings before income taxes	1,799,525	1,359,168
Income taxes	544,003	360,865
Net earnings	₩ 1,255,522	998,303
Basic earnings per share of common stock in Won	₩ 5,957	4,719
Diluted earnings per share of common stock in Won	₩ 5,582	4,713

### Statements of Appropriation of Retained Earnings

December 31, 2004 and 2005

	2004	2005
Unappropriated retained earnings:		
Balance at beginning of year	₩ 1,922,512	2,165,757
Interim dividends	(210,759)	(210,759)
Net earnings	1,255,522	998,303
Balance at end of year before appropriation	2,967,275	2,953,301
Transfers from reserves :		
Reserve for social overhead capital	-	30,000
Unappropriated retained earnings available for appropriation	2,967,275	2,983,301
Appropriation of retained earnings :		
Loss on retirement of treasury stock	-	38,431
Reserve for technology and human resources development	350,000	-
Reserve for social overhead capital	30,000	-
Cash dividends	421,518	426,113
	801,518	464,544
Unappropriated retained earnings to be carried over to subsequent year	₩ 2,165,757	2,518,757



Unit : KRW million

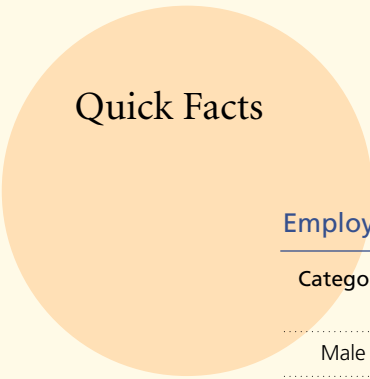
## Statements of Cash Flows

December 31, 2004 and 2005

	2004	2005
Cash flows from operating activities:		
Net earnings	₩ 1,255,522	998,303
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	2,291,428	2,166,121
Amortization	69,829	89,865
Provision for doubtful notes and accounts receivable - trade	238,953	57,733
Provision for doubtful accounts receivable - other	58,603	65,463
Provision for retirement and severance benefits	208,665	225,940
Employee benefits	-	91,673
Loss on disposition of property, plant and equipment, net	86,938	32,496
Foreign currency transactions and translation gains, net	(555,241)	(45,989)
Loss (gain) on disposition of available-for-sale securities, net	14,131	(55,016)
Impairment loss on available-for-sale securities	307	2,540
Equity in losses (gains) of affiliates, net	235,514	(52,156)
Deferred income tax expense	128,546	77,427
Derivatives transaction and valuation losses (gains), net	145,408	(1,867)
Reversal of customer call bonus accrual	-	(31,882)
Changes in operating assets and liabilities:		
Notes and accounts receivable - trade	(28,904)	4,215
Accounts receivable - other	(65,435)	39,797
Inventories	56,238	(8,034)
Other current assets	(44,352)	4,236
Notes and accounts payable - trade	(191,116)	57,718
Accounts payable - other	(35,771)	127,877
Withholdings	(5,103)	(8,532)
Advance receipts from customers	11,791	(27,226)
Accrued expenses	(9,082)	161,357
Income taxes payable	77,171	(129,545)
Payment of retirement and severance benefits	(23,205)	(20,928)
Severance benefits insurance deposit, net	(119,847)	(137,155)
Other, net	(32,639)	(58,732)
Net cash provided by operating activities	3,768,349	3,625,699
Cash flows from investing activities:		
Purchases of property, plant and equipment	₩ (1,818,507)	(2,025,230)
Proceeds from sale of property, plant and equipment	28,828	17,411
Purchases of intangible assets	(128,356)	(235,627)
Decrease in other assets	157,567	190,436
Decrease (increase) in short-term financial instruments, net	(923,995)	790,342
Purchases of available-for-sale securities	(492,000)	(215,789)

Unit: KRW million

	2004	2005
Purchases of equity securities of affiliates	-	(41,983)
Proceeds from sale or redemption of available-for-sale securities	572,338	876,477
Proceeds from dividends of equity securities of affiliates	46,877	51,549
Net cash used in investing activities	(2,557,248)	(592,414)
Cash flows from financing activities:		
Repayment of in short-term borrowings, net	(250,000)	-
Repayment of long-term debt	(1,065,098)	(4,094,260)
Proceeds from issuance of long-term debt	1,836,434	1,268,362
Decrease in refundable deposits for telephone installation	(142,436)	(128,392)
Payment of dividends	(633,171)	(632,277)
Other, net	(6,307)	(7,205)
Net cash used in financing activities	(260,578)	(3,593,772)
Net increase (decrease) in cash and cash equivalents	950,523	(560,487)
Cash and cash equivalents at beginning of period	653,744	1,604,267
Cash and cash equivalents at end of period	₩ 1,604,267	1,043,780



# Quick Facts

## Employees

(as of Dec. 31, 2005)

Category	Executives	Assistant Vice Presidents	Administrative Employees	Technical Employees	R&D Staff	Others	Total
Male	51	261	6,047	24,270	703	994	32,326
Female	2	2	2,857	1,493	155	1,122	5,631
<b>Total</b>	<b>53</b>	<b>263</b>	<b>8,904</b>	<b>25,763</b>	<b>858</b>	<b>2,116</b>	<b>37,957</b>

## Organization

(as of Dec. 31, 2005)

Headquarters	BU (Business Unit)	RBU (Regional Business Unit)	Field Offices	Subsidiaries
4 Groups	5 Groups			
12 Offices	15 BUs	11 RBUs	110 Offices	11 Companies
1 Lab	4 Labs			

## Organization Chart



## Subsidiaries & Affiliates

(as of Dec. 31, 2005)

Company Name	Business Lines	Founding Date	Equity holding (%)
KT Freetel (KTF)	Mobile communications	1997. 1. 3	44.6
KT Hitel (KTH)	Internet portal & online games	1991.12. 9	65.9
KT Powertel	TRS communications, airport radio communications	1985.12. 30	44.8
KT Linkus	Public phone installation and operation, security services (KT Telecop)	1988. 8. 1	93.8
KT Submarine	Submarine cable installation and maintenance	1995. 4.17	36.9
KT Networks	Telecom resale, NI	1986. 5. 21	100.0
KT Commerce	Internet shopping mall	2002. 5. 23	19.0
KT Rental	Equipment rental (vehicles, medical devices, IT equipment & devices, etc.)	2005.10. 20	100.0
KTF Technologies	Manufacture and sales of mobile communications devices	2001.10. 12	73.1 <sup>(KTF)</sup>
KTF mhows	Mobile advertising	2004.11. 21	51.0 <sup>(KTF)</sup>

**KT Freetel (KTF)** [ [www.ktf.com](http://www.ktf.com) ] following its market debut in 1997 as a PCS service provider, has added to its resume an impressive list of record-breaking achievements. After rapidly becoming a frontrunner of Korea's mobile industry thanks to a wireless network technology unparalleled in the industry, KTF is now a strong contender for leadership in the global market. Possessing an advanced cutting-edge mobile multimedia technology and uniquely positioned to lead next-generation mobile communications, KTF has a management policy based on "Good Time Management," whose two principal goals are customer satisfaction and shared growth.

**KT Hitel (KTH)** [ [www.paran.com](http://www.paran.com) ] launched on December 9, 1991, is the Internet service arm of the KT Group. With a reputation for being a company that positively influences the development of Korea's Internet culture and one that delivers outstanding value to its customers, KTH is today actively realigning its operations and resources for continued competitiveness in the age of digital convergence. Its new Internet portal, Paran, is an example of KTH's constant efforts for self-renewal. Guided by its new business concept "Digital Media Gateway," KTH has reinvented itself as a multimedia portal operator, providing better value to its customers through the quality media content it collects and supplies via an efficient delivery system.

**KT Powertel** [ [www.ktpowertel.co.kr](http://www.ktpowertel.co.kr) ] launched in 1985, is Korea's only TRS operator sharing frequency channels nationwide. KT Powertel offers a multifunction service bundling mobile communications with the functions of radio communications, which has become a widely used solution among enterprise customers for coordinating logistics operations. Last year, on the occasion of its 20th anniversary, KT Powertel proclaimed "Vision Soft Create" as the corporate vision that will guide it on the path to becoming the world's best wireless operator.

**KT Linkus** [ [www.ktlinkus.co.kr](http://www.ktlinkus.co.kr) ] created in August of 1988, is a public phone operator who is also the provider of KT Telecop, a security service combining unmanned surveillance and an emergency dispatch service. In recent years, KT Linkus substantially expanded and strengthened its security business division to tap into the potential of the digital security market, which is expected to undergo strong growth in coming years. In fact, the company has already made good progress in broadening the demand for unmanned security systems in Korea.

**KT Submarine** [ [www.ktsubmarine.co.kr](http://www.ktsubmarine.co.kr) ] founded in April 1995, is Korea's only submarine cable ship operator. Enjoying an excellent reputation for its state-of-the-art equipment and strong technological expertise, KT Submarine is currently working toward becoming a leading company of ocean business, and aims to pass the KRW 100-billion mark in sales by the year 2010. In the years to come, the company is looking to extend the scope of its businesses, adding submarine power cable installation to its original submarine optical cable installation business line. The company also hopes to venture into offshore construction projects like offshore oil drilling and exploitation of ocean resources such as deep sea water.

**KT Networks** [ [www.ktn.co.kr](http://www.ktn.co.kr) ] created in May 1986, is currently making significant investments in its SI/NI business. With a management policy emphasizing customer value, this company has set itself a sales goal of KRW 990 billion, to be achieved by 2010.

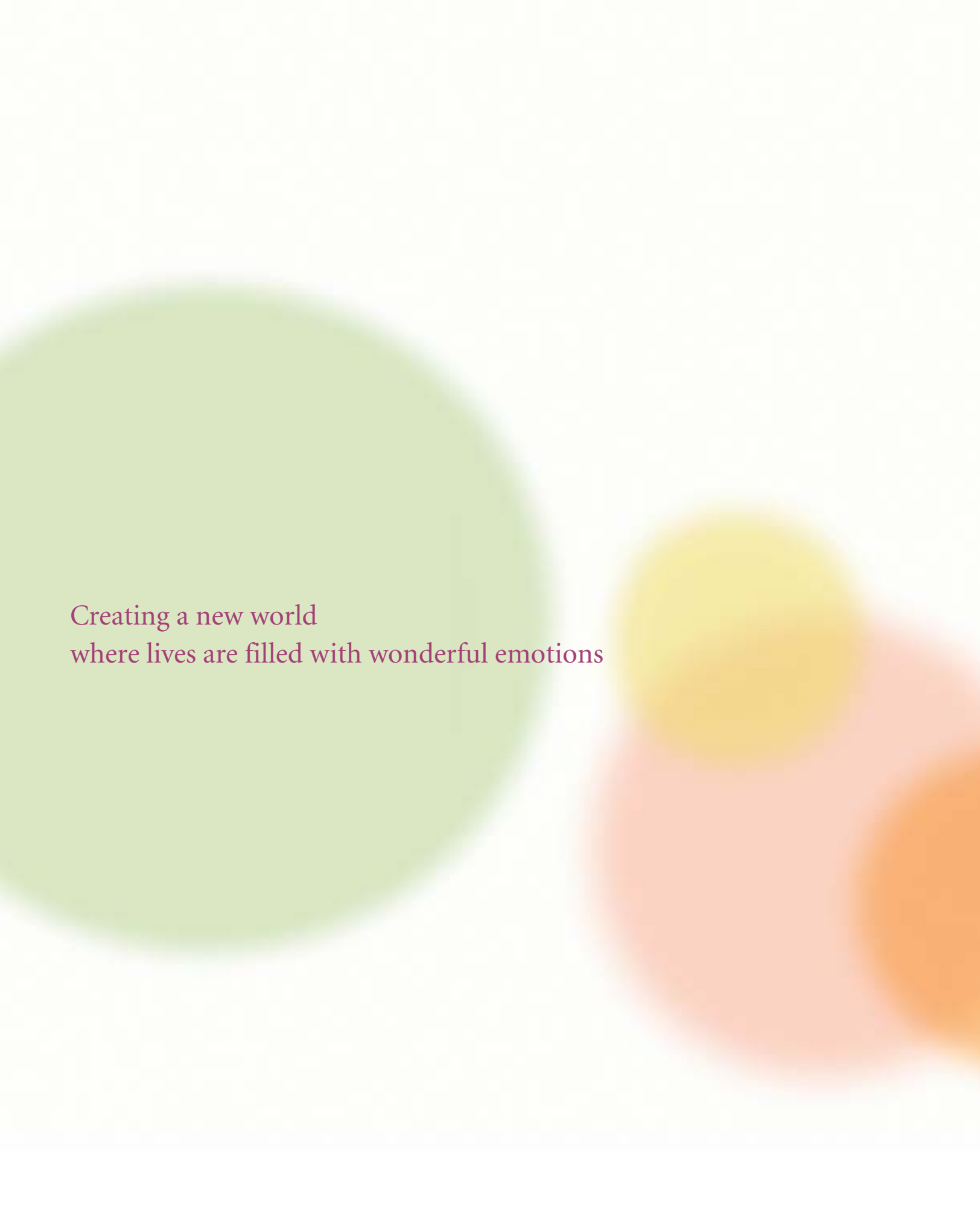
**KT Commerce** [ [www.ktmall.co.kr](http://www.ktmall.co.kr) ] made its debut as an e-commerce firm in February 2000. With "Global Online Market Leader" as its vision, KT Commerce intends to fuel future growth through its T-commerce and M-commerce operations and other strategic ICT businesses in which it is actively investing.

**KT Rental** [ [www.ktrental.com](http://www.ktrental.com) ] The company deals with the rental of general equipment and machinery, measuring instruments, and vehicles. Under the slogan "Your Best Business Partner," the company works tirelessly to better meet the business service needs of its customers by expanding categories of rental equipment and providing a larger portfolio of financing solutions.

**KTF Technologies** [ [www.ktfever.com](http://www.ktfever.com) ] is the KT Group's mobile phone developer, launched in October of 2001. Bolstered by years of successful development know-how, this young company is now setting its sights on the world market. Its sales goal for 2007 is KRW one trillion.

**KTF mhows** [ [www.mhows.com](http://www.mhows.com) ] is a joint-venture firm created by KTF and Dentsu, the world's largest advertising company. Specializing in mobile marketing and mobile advertising, KTF mhows helps businesses effectively reach their target markets and creates value both for businesses and consumers by efficiently delivering information through the innovative use of technology.





Creating a new world  
where lives are filled with wonderful emotions



Life is wonderful... **KT**

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