Our consolidated financial statements are expressed in Won and, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended December 31, 2015 have been translated into United States dollars at the rate of 1,172.0 to US$1.00, the Market Average Exchange Rate in effect on December 31, 2015.

We make no representation that the Won or Dollar amounts contained in this annual report could have been or could be converted into Dollar or Won, as the case may be, at any particular rate or at all.

Item 3.B. ***Capitalization and Indebtedness***

Not applicable.

Item 3.C. ***Reasons for the Offer and Use of Proceeds***

Not applicable.

Item 3.D. ***Risk Factors***

You should carefully consider the following factors.

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. (“SK Telecom”) acquired a controlling stake in Hanarotelecom Incorporated in 2008, which was renamed SK Broadband Co., Ltd. (“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 (“LG Dacom”) and LG Powercom Co., Ltd. (“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, has 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 (“W-CDMA”) technology and Long-Term Evolution (“LTE”) technology. Competitors in the mobile telecommunications service industry are SK Telecom and LG U+. We had a market share of 30.6% as of December 31, 2015, making us the second largest mobile telecommunications service provider in Korea. SK Telecom had a market share of 49.1% as of December 31, 2015. 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. Such mobile number portability and handset subsidies previously intensified competition among the mobile service providers and increased their marketing expenses. In addition, wide variation in subsidy amounts paid to subscribers led to concerns relating to consumer discrimination over time. Consequently, in order to enhance transparency in subsidy amounts paid to subscribers, the Act on Improvement of Mobile Telecommunication Device Distribution System (the "Handset Distribution Reform Act"), which limits the amount of handset subsidies offered by service providers, was enacted in October 2014. As a result, price competition through handset subsidies has become less prevalent. However, if regulations are amended to allow a greater amount of subsidies and 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 ("4G") mobile telecommunications services based on LTE technology, which 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. Furthermore, as SK Telecom, LG U+ and we continue to compete to improve network quality in order to accommodate increased data usage of subscribers, we may incur significant expenses to acquire additional bandwidth spectrums and various fixed assets. We believe that the continuing intense competition among major telecommunications operators in Korea 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, Sejong Telecom, Inc. (formerly, 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 services. As of December 31, 2015, we had a market share in local telephone service of 80.6% 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 ("HFC") and Asymmetric Digital Subscriber Line ("ADSL") services. We also began offering broadband Internet access service in 1999, followed by Dreamline, Sejong 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 41.6% as of December 31, 2015. In November 2015, SK Broadband announced its plan to acquire a majority stake in CJ HelloVision Co., Ltd. ("CJ HelloVision"), the largest cable multiple system operator with a market share of 14.4% of the paid TV services market in Korea as of 2015. CJ HelloVision provides Internet access service, Internet phone service and wireless communications services. The merger proposal is currently being reviewed by the Government due to anti-trust concerns, among others. If the merger is approved as currently proposed, SK Telecom is expected to further increase its market share of various businesses such as Internet access service, IPTV and wireless communications markets. 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 a service provider. We currently use 40 MHz of bandwidth in the 2.1 GHz spectrum, of which 20 MHz is used for our 4G LTE services and the remaining 20 MHz of bandwidth for our IMT-2000 services based on W-CDMA wireless network standards. We also use 20 MHz of bandwidth in the 900 MHz spectrum and 35 MHz of bandwidth in the 1.8 GHz spectrum for our 4G LTE services. For more information on our licenses to bandwidth spectrum, see “Item 4. Information on the Company—Item 4.D. Property, Plants and Equipment—Mobile Networks.”

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. Furthermore, we may be required to pay a substantial amount to acquire bandwidth capacity in order to meet increasing bandwidth demand, which may adversely affect our financial condition and results of operations.

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 (“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 685,081 subscribers as of December 31, 2015. The number of our WiBro subscribers decreased in 2015 compared to 2014, as more WiBro subscribers chose to access the internet using our 4G LTE network rather than WiBro following the proliferation of 4G LTE services since 2013. Furthermore, we focused our subscriber retention efforts during 2015 on our mobile subscribers rather than our WiBro subscribers. We are also continually upgrading our broadband network to enable better fiber-to-the-home (“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, generally providing a downloading speed of 75 Mbps per 10 MHz. Our LTE services provides a downloading speed of up to 300 Mbps for downloading (for which 40 MHz of bandwidth is used) by utilizing inter-band carrier aggregation technology. We introduced the GiGA LTE service in June 2015, linking “Wideband LTE-A X4” and wireless LAN service (“WiFi”) signals and thereby increasing data transmission speed to up to 1.17 Gbps 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. Accordingly, we have made extensive efforts to develop advanced technologies as well as to provide a variety of services with enhanced speed, latency and connectivity. However, 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 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. On August 20, 2015, we and our consolidated subsidiary, KT Hitel Co., Ltd., sold the entire 100% stake of KT Capital Co., Ltd. to JCF III K Holdings LLC for a total of 299 billion. 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. (“KT Skylife”), 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 49.9% interest in KT Skylife as of December 31, 2015. In March 2015, KT Media Hub Co., Ltd. was merged into KT Corporation to increase management efficiency and promote synergy among our existing businesses.

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 November 15, 2017. 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 whose rates and general terms of service must be approved by the MSIP. In recent years, the MSIP had 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. See “Item 4. Information on the Company—Item 4.B. Business Overview—Regulation—Rates.” The form of our standard agreement for providing local network service and each agreement for interconnection with other service providers are also subject to approval by the MSIP. In addition, the MSIP may periodically announce public policy guidelines or suggestions that we take into consideration in setting our tariffs for non-regulated services. As a result of discussions with the MSIP, after a series of reductions, we abolished our activation fee relating to our mobile services completely in March 2015. In December 2015, we decided to lower our early termination fee to 25.1% of the existing fees relating to our broadband internet access service, internet phone or IPTV or such products bundled with our fixed-line telephone service. We expect such policy to be in effect by the first half of 2016. 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.

The MSIP may revoke our licenses or suspend any of our businesses if we fail to comply with its rules, regulations and corrective orders, including the rules restricting beneficial ownership and control or any violation of the conditions of our licenses. Alternatively, in lieu of suspension of our business, the MSIP may levy a monetary penalty of up to 3.0% of the average of our annual revenue for the preceding three fiscal years. For example, in December 2013, the KCC 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 accepting 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 accepting 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. On March 12, 2015, the KCC imposed a fine of 870 million for violation of restrictions on handset subsidies relating to our compensation program for used handsets. On June 24, 2015, the KCC imposed a fine of 52 million for violating privacy related regulations and undermining consumer interests. On July 31, 2015, the KCC imposed a fine of 350 million for infringing upon consumer interests by advertising false and exaggerated information about bundled products. For more information about the penalties imposed for violating Government regulations, see "Item 8. Financial Information—Item 8.A. Consolidated Statements and Other Financial Information—Legal Proceedings." The revocation of our licenses, suspension of our business or imposition of monetary penalties by the MSIP could have a material adverse effect on our business.

On October 1, 2014, the Handset Distribution Reform Act went into effect. The Handset Distribution Reform Act regulates, among other matters, 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 Handset Distribution Reform 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 by an auction process or by a planned allocation. For a discussion of the Government’s recent policies and practices on bandwidth spectrum allocation, see “—Item 3.D. Risk Factors—Failure to renew existing bandwidth spectrum, acquire adequate additional bandwidth spectrum or use our bandwidth efficiently may adversely affect our mobile telecommunications business and results of operations.” The new allocations of bandwidth could increase competition among wireless service providers, which may have an adverse effect on our business.

We also plan to put more focus on the Internet protocol (“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 linear channel programs 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 linear channel programs with IPTV providers must obtain additional approval from the MSIP. In addition, KT Skylife (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 promulgated. Under such amendments, a single pay TV operator (including its affiliates) may not have more than one-third of the market share of all pay TV subscribers in Korea. The restriction on market share is in effect until June 27, 2018.

Government policies and regulations relating to the above as well as other regulations involving the Korean telecommunications and IP broadcasting industries (including as a result of the implementation of free trade agreements between Korea and other countries, including the United States and the European Union) may change, which could have a material adverse effect on our operations and financial condition. See “Item 4. Information on the Company—Item 4.B. Business Overview—Regulation.”

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

The Monopoly Regulation and Fair Trade Act provides for various regulations and restrictions on large business groups enforced by the Korea Fair Trade Commission. The Korea Fair Trade Commission 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. For example, in 2015, we were fined 2 billion by the Korea Fair Trade Commission for using monopolistic status to exclude competitors in the corporate messaging business. 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 standing 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. On September 24, 2015, the Seoul District Court acquitted Mr. Lee of the charges of embezzlement and breach of fiduciary duty. Mr. Kim and Mr. Seo were also acquitted of the conspiracy charges. The prosecution has appealed the judgments. The appeals 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 our previous subsidiary, KT ENGCORE, could have a material adverse effect on our business, reputation and stock price.

An employee of KT ENGCORE, our consolidated subsidiary until August 2014, and several companies, some of which are KT ENGCORE'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 ENGCORE. KT ENGCORE'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 ENGCORE 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 and by the appellate court subsequently.

In March 2014, KT ENGCORE 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 ENGCORE. KT ENGCORE faced difficulties in preventing such exercise of redemption rights following the above incident, and we declined to provide additional financial support to KT ENGCORE to repay the redeemed commercial paper. In August 2014, the Seoul Central District Court approved KT ENGCORE's restructuring plan, and determined that KT ENGCORE is only responsible for 15% of the borrowings which remain unpaid, or approximately 46 billion. Pursuant to the plan, KT ENGCORE 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 ENGCORE's restructuring is unlikely to have a material impact on our results of operations or financial condition on a consolidated basis, as KT ENGCORE has not been our consolidated subsidiary since 2014 due to its filing for court receivership, and our interest in KT ENGCORE was classified as available-for-sale securities, any future legal proceedings against KT ENGCORE 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 16 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 October 2015, various district courts have awarded damages of 100,000 per plaintiff for 13 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 19 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 8,635 billion total principal amount of borrowings outstanding as of December 31, 2015, 2,674 billion was denominated in foreign currencies with a weighted average interest rate of 3.62%. The interest rates of such debt denominated in foreign currencies ranged from 0.48% (Japanese Yen 15 billion bond issued in 2015) to 6.50% (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. See "—Item 3.A. Selected Financial Data—Exchange Rate Information", "Item 5. Operating and Financial Review and Prospects—Item 5.B. Liquidity and Capital Resources" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Exchange Rate Risk."

Fluctuations in the exchange rate between the Won and the Dollar will also affect the Dollar equivalent of the Won price of the shares of our common stock on the KRX Korea Composite Stock Price Index ("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.

Table of Contents

We may be exposed to potential claims for unpaid wages and become subject to additional labor costs arising from the Supreme Court of Korea's interpretation of ordinary wages.

Under the Labor Standards Act, an employee's "ordinary wage" is a key legal construct used to calculate many statutory benefits and entitlements in Korea. Increasing or decreasing the amount of compensation included in employees' ordinary wages has the effect of increasing or decreasing the amounts of various statutory entitlements that are calculated based on "ordinary wage," such as overtime premium pay. Under guidelines previously issued by the Ministry of Employment and Labor, prior to the Supreme Court decision described below, an employee's ordinary wage included base salary and certain fixed monthly allowances for work performed overtime during night shifts and holidays. Prior to the Supreme Court of Korea's decision described below, companies in Korea had typically interpreted these guidelines as excluding from the scope of ordinary wages fixed bonuses that are paid other than on a monthly basis, namely on a bi-monthly, quarterly or biannual basis.

On December 18, 2013, the Supreme Court of Korea ruled that regular bonuses (including those that are paid other than on a monthly basis) shall be deemed ordinary wages if these bonuses are paid "regularly" and "uniformly" on a "fixed basis" notwithstanding differential amounts based on seniority. Under this decision, any collective bargaining agreement or labor-management agreement which attempts to exclude such regular bonuses from employees' ordinary wages will be deemed void for violation of the mandatory provisions of Korean law. However, the Supreme Court of Korea further ruled that, in certain limited situations, an employee's claim of underpayment under the expanded scope of ordinary wages for the past three years may be denied based on the principles of good faith, even though the claim is raised within the statute of limitations period. Following this Supreme Court Decision, the Ministry of Employment and Labor issued a Guideline for Labor and Management on Ordinary Wages on January 23, 2014. A bill for amendment to the Labor Standard Act, which includes a definition of "ordinary wages" as "entire money and valuables determined in advance to be provided to the employee by the employer as wages, regardless of its name, in exchange of the prescribed or total work of the employee," is currently pending at the sub-committee level of the National Assembly.

While we currently are not subject to any claims of underpayment from our current or former employees, the Supreme Court decision may result in additional labor costs for us in the form of additional payments required under the expanded scope of ordinary wages, both those incurred during the past three years and those to be incurred in the future. Any such additional payments may have an adverse effect on our financial condition and results of operation.

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 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. See "—Item 3.A. Selected Financial Data—Exchange Rate Information." A depreciation of the Won increases the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency denominated debt. An appreciation of the Won, on the other hand, causes export products of Korean companies to be less competitive by raising their prices in terms of the relevant foreign currency and reduces the Won value of such export sales. Furthermore, as a result of adverse global and Korean economic conditions, there has been volatility in the stock prices of Korean companies in recent years. 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 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:

- continued volatility or deterioration in Korea's credit and capital markets;
- difficulties in the financial sectors in Europe, China 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, the Euro 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 and regions that are important export markets for Korea, such as the United States, Europe, 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;
- social and labor unrest;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- 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, Middle East Respiratory Syndrome and Zika virus outbreaks;
- 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, and political gridlock within the Government or in the legislature, which prevents or disrupts timely and effective policy making;
- 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 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, there continues to be uncertainty regarding the long-term stability of North Korea's political leadership since the succession of Kim Jong-un to power following the death of his father in December 2011, which has raised concerns with respect to the political and economic future of the region.

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:

- On February 7, 2016, North Korea launched a rocket, claimed by them to be carrying a satellite intended for scientific observation. The launch was widely suspected by the international community to be a cover for testing a long-range missile capable of carrying a nuclear warhead. On February 18, 2016, U.S. President Barack Obama signed into law mandatory sanctions on North Korea to punish it for its recent nuclear and missile tests, human rights violations and cyber crimes. The bill, which marks the first measure by the United States to exclusively target North Korea, is intended to seize the assets of anyone engaging in business related to North Korea's weapons program, and authorizes US$50 million over five years to transmit radio broadcasts into the country and support humanitarian assistance projects. On March 2, 2016, the United Nations Security Council voted unanimously to adopt a resolution to impose sanctions against North Korea, which include inspection of all cargo going to and from North Korea, a ban on all weapons trade and the expulsion of North Korean diplomats who engage in "illicit activities." Also, on March 4, 2016, the European Union announced that it would expand its sanctions on North Korea, adding additional companies and individuals to its list of sanction targets.
- On January 6, 2016, North Korea announced that it had successfully conducted its first hydrogen bomb test, hours after international monitors detected a 5.1 magnitude earthquake near a known nuclear testing site in the country. The claims have not been verified independently. The alleged test followed a statement made in the previous month by Kim Jong-un, who claimed that North Korea had developed a hydrogen bomb.
- In August 2015, two Korean soldiers were injured in a landmine explosion near the South Korean demilitarized zone. Claiming the landmines were set by North Koreans, the South Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired

artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas. High-ranking officials from North and South Korea subsequently met for discussions and entered into an agreement on August 25, 2015 intending to deflate military tensions.

- From time to time, North Korea has fired short- to medium-range missiles from the coast of the Korean peninsula into the sea. Most recently in March 2015, North Korea fired seven surface-to-air missiles into waters off its east coast in apparent protest of annual joint military exercises being held by Korea and the United States.

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.

Korea's legislation allowing class action suits related to securities transactions may expose us to additional litigation risk.

The Securities-related Class Action Act of Korea enacted in January 2004 allows class action suits to be brought by shareholders of companies (including us) listed on the KRX KOSPI Market for losses incurred in connection with purchases and sales of securities and other securities transactions arising from (1) false or inaccurate statements provided in the registration statements, prospectuses, business reports, audit reports, semi-annual or quarterly reports and material fact reports and omission of material information in such documents, (2) insider trading, (3) market manipulation and (4) unfair trading. This law permits 50 or more shareholders who collectively hold 0.01% of the shares of a company to bring a class action suit against, among others, the issuer and its directors and officers. Because of the relatively recent enactment of the act, there is not enough judicial precedent to predict how the courts will apply the law. Litigation can be time-consuming and expensive to resolve, and can divert management time and attention from the operation of a business. We are not aware of any basis upon which such suit may be brought against us, nor are any such suits pending or threatened. Any such litigation brought against us could have a material adverse effect on our business, financial condition and results of operations.

We are generally subject to Korean corporate governance and disclosure standards, which differ in significant respects from those in other countries.

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which differ in some respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are, and will continue to be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002, as amended. However, foreign private issuers, including us, are exempt from certain corporate governance standards required under the Sarbanes-Oxley Act or the rules of the New York Stock Exchange. For a description of significant differences in corporate governance standards, see "Item 16G. Corporate Governance." There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries.

Risks Relating to the Securities

If an investor surrenders his ADSs to withdraw the underlying shares, he may not be allowed to deposit the shares again to obtain ADSs.

Korean law currently limits foreign ownership of the ADSs and our shares. In addition, under our deposit agreement, the depositary bank cannot accept deposits of shares and deliver ADSs representing those shares unless (1) we have consented to such deposit or (2) Korean counsel has advised the depositary bank that the consent required under (1) is no longer required under Korean laws and regulations. Under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us or with our consent for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. The depositary bank has informed us that, at a time it considers to be appropriate, the depositary bank plans to start accepting deposits of shares without our consent and to deliver ADSs representing those shares up to the amount allowed under current Korean laws and regulations. Until such time, however, the depositary bank will continue to obtain our consent for such deposits of shares and delivery of ADSs, which we may not provide. Consequently, if an investor surrenders his ADSs to withdraw the underlying shares, he may not be allowed to deposit the shares again to obtain ADSs. See “Item 10. Additional Information—Item 10.D. Exchange Controls.”

A foreign investor may not be able to exercise voting rights with respect to common shares exceeding the number of common shares held by our largest domestic shareholder.

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. 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 addition, the Foreign Investment Promotion Act prohibits any foreign shareholder from being our largest shareholder if such shareholder owns 5.0% or more of our shares with voting rights. In the event that any foreigner or foreign government acquires our shares in violation of the above provisions, such foreign shareholder may not be able to exercise 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. See “Item 10. Additional Information—Item 10.B. Memorandum and Articles of Association.”

Holders of ADSs will not be able to exercise appraisal rights unless they have withdrawn the underlying common stock and become our direct shareholders.

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their shares under Korean law. A holder of ADSs will not be able to exercise appraisal rights unless he has withdrawn the underlying common stock and become our direct shareholder. See “Item 10. Additional Information—Item 10.B. Memorandum and Articles of Association.”

An investor may not be able to exercise preemptive rights for additional shares and may suffer dilution of his equity interest in us.

The Commercial Code of Korea and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary bank, after consultation with us, may make the rights available to an ADS holder or use reasonable efforts to dispose of the rights on behalf of the ADS holder and make the net proceeds available to the ADS holder. The depositary bank, however, is not required to make available to an ADS holder any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

- a registration statement filed by us under the Securities Act of 1933, as amended, is in effect with respect to those shares; or
- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

We are under no obligation to file any registration statement. If a registration statement is required for an ADS holder to exercise preemptive rights but is not filed by us, the ADS holder will not be able to exercise his preemptive rights for additional shares. As a result, the ADS holder may suffer dilution of his equity interest in us.

Forward-looking statements may prove to be inaccurate.

This annual report contains “forward-looking statements” that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “project,” “should,” and similar expressions. Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include, but are not limited to, those identified in the risk factors discussed above. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

Item 4. Information on the Company

Item 4.A. *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