

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

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

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

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

Fixed-line Telephone Services. Before December 1991, we were the sole provider of local, domestic long-distance and international long-distance telephone services in Korea. Since then, various competitors have entered the local, domestic long-distance and international long-distance telephone service markets in Korea, which have eroded our market shares. LG U+ and SK Broadband currently provide local, domestic long-distance and international long-distance telephone services. In addition, Onse Telecom Corporation and SK Telink, Inc. currently provide domestic long-distance and

international long-distance telephone services. Starting in 1998, specific service providers, such as Internet phone service providers, voice resellers and call-back service providers, also began offering international long-distance service in Korea. While we offer our own Internet phone service, the entry of these and other potential competitors into the local, domestic long-distance and international long-distance telephone service markets has had and may continue to have a material adverse effect on our revenues and profitability from these businesses. As of December 31, 2010, we had a market share in local telephone service of 86.3% and a market share in domestic long distance service of 82.2%. Further increase in competition may decrease our market shares in such businesses.

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

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

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

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

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

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

The integration of the operations of KTF into KT Corporation may require significant amounts of time, financial resources and management attention. KT Corporation's management intends to implement a business plan to effectively combine the operations of KTF with the operations of

KT Corporation. If this business plan is not effective in integrating these operations, however, we may not realize the anticipated benefits of the merger. The integration process could also result in the disruption of our ongoing business and information technology systems, or inconsistencies in standards, controls, procedures and policies and a reduction in employee morale, each of which may adversely affect our ability to maintain relationships with customers and to retain key personnel.

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

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

One of the principal limitations on a wireless network's subscriber capacity is the amount of bandwidth spectrum allocated to the service provider. Our current right to use 40 MHz of bandwidth in the 1.8 GHz spectrum is scheduled to expire at the end of June 2011. We have applied to the Korea Communications Commission to allocate back to us 20 MHz of bandwidth in the 1.8 GHz spectrum, for which we expect to pay a usage fee if reallocated to us. In addition, the Korea Communications Commission allocated 20 MHz of bandwidth in the 900 MHz spectrum to us, which will become effective on July 1, 2011. We expect to pay a portion of the actual sales generated from using the bandwidth in the 900 MHz spectrum during the license period of 10 years as a usage fee for the bandwidth, as well as a portion of expected sales as determined by the Korea Communications Commission at the time of allocation. In June 2011, the Korea Communications Commission announced its plan to auction in August 2011 the right to use 20 MHz of bandwidth in the 1.8 GHz spectrum that we are scheduled to relinquish at the end of June 2011, 10 MHz of additional bandwidth in the 800 MHz spectrum and 20 MHz of additional bandwidth in the 2.1 GHz spectrum. According to the plan, a maximum of 20 MHz of bandwidth may be sold to a single service provider, and SK Telecom and we are prohibited from bidding for the 20 MHz bandwidth in the 2.1 GHz spectrum. If we are allocated the bandwidths in the 800 MHz or the 1.8 GHz spectrums, we expect to pay usage fees for such bandwidths. The growth of our mobile telecommunications business and the increase in usage of wireless data transmission services have been significant factors in the increased utilization of our bandwidth, since wireless data applications are generally more bandwidth-intensive than voice services. The current trend of increasing data transmission use and the increasing sophistication of multimedia contents are likely to put additional strain on the bandwidth capacity of mobile service providers. In the event we are unable to maintain sufficient bandwidth capacity by renewing existing bandwidth spectrum, receiving additional bandwidth allocation, or cost-effectively implementing technologies that enhance bandwidth usage efficiency, our subscribers may perceive a general decrease in quality of mobile telecommunications services. No assurance can be given that bandwidth constraints will not adversely affect the growth of our mobile telecommunications business.

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

We have been providing our 2G PCS services based on CDMA wireless network standards through our 40 MHz bandwidth in the 1.8 GHz spectrum, which allocation is expected to terminate at the end of June 2011. As part of our decision to apply for reallocation, we have applied to the Korea Communications Commission to terminate our existing 2G PCS services, which we expect to be able

to terminate in the second half of 2011. Accordingly, our existing 2G PCS subscribers must either convert to our W-CDMA services or switch to other telecommunications companies. As of December 31, 2010, there were 1,393 thousand subscribers of our 2G PCS services. We are offering benefits such as substantial discounts on W-CDMA-compatible handsets and monthly subscription fees starting in March 2011 to encourage our existing subscribers to switch to our W-CDMA services. However, there can be no assurance that we will not incur reputational damage from terminating our 2G PCS services, such termination will not lead to a material decrease in the number of our mobile subscribers, or complaints and other potential actions of our 2G PCS subscribers will not adversely affect our business, financial condition and results of operations.

Introduction of new services poses challenges and risks to us.

The telecommunications industry is characterized by continual advances and improvements in telecommunications technology, and we have been continually researching and implementing technology upgrades and additional telecommunication services to maintain our competitiveness. For example, in March 2005, we acquired a license to provide wireless broadband Internet access (or WiBro) service for (Won)126 billion, and commercially launched our service in June 2006. We completed the upgrade of our 4G WiBro network and expanded our WiBro service coverage to 82 cities nationwide and major highways as of March 2011, which we believe will allow us to provide WiBro services at speeds that are approximately three times faster than our previous 3G network at a lower cost, and had approximately 377 thousand subscribers as of December 31, 2010. In addition, we are currently upgrading our broadband network to enable FTTH connection, which enhances downstream speed and connection quality. FTTH is a telecommunication architecture in which a communication path is provided over optical fiber cables extending from the telecommunications operator's switching equipment to the boundary of home or office. FTTH uses fiber optic cable, which is able to carry a high-bandwidth signal for longer distances without degradation. FTTH enables us to deliver enhanced products and services that require high bandwidth, such as IP-TV service and delivery of other digital media content. No assurance can be given that our new services will gain broad market acceptance such that we will be able to derive revenues from such services to justify the license fee, capital expenditures and other investments required to provide such services.

Disputes with our labor union may disrupt our business operations.

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

We also negotiate collective bargaining agreements every two years with our labor union and annually negotiate a wage agreement. Our current collective bargaining agreement expires on May 23, 2013. Although we have been able to reach collective bargaining agreements and wage agreements with our labor union in recent years, there can be no assurance that we will not experience labor disputes and unrests resulting from disagreements with the labor union in the future.

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

The Government, primarily through the Korea Communications Commission, has authority to regulate the telecommunications industry. The Korea Communications Commission's policy is to

promote competition in the Korean telecommunications markets through measures designed to prevent the dominant service provider in any such market from exercising its market power in such a way as to prevent the emergence and development of viable competitors.

Under current Government regulations, if a network service provider has the largest market share for a specified type of service and its revenue from that service for the previous year exceeds a specific revenue amount set by the Korea Communications Commission, it must obtain prior approval from the Korea Communications Commission for the rates and the general terms for that service. Each year the Korea Communications Commission designates service providers the rates and the general terms of which must be approved by the Korea Communications Commission. In recent years, the Korea Communications Commission has so designated us for local telephone service and SK Telecom for mobile service, and the Korea Communications Commission, in consultation with the Ministry of Strategy and Finance, currently approves rates charged by us and SK Telecom for such services. In June 2011, SK Telecom announced tariff reduction measures, including a reduction of the monthly fee by (Won)1,000 for every subscriber, an exemption of usage charges for short text message service, or SMS, up to 50 messages per month and the introduction of flexible service plans for smartphone users. The Korea Communications Commission currently does not regulate our domestic long-distance, international long-distance, broadband internet access and mobile service rates, but the inability to freely set our local telephone service rates may hurt profits from such business and impede our ability to compete effectively against our competitors. See “Item 4. Information on the Company—Item 4.B. Business Overview—Regulation—Rates.” The form of our standard agreement for providing local network service and each agreement for interconnection with other service providers are also subject to approval by the Korea Communications Commission.

The Government also sets the policies regarding the use of radio frequencies and allocates the spectrum of radio frequencies used for wireless telecommunications. On April 29, 2010, the Korea Communications Commission announced its decision to allocate 20 MHz of bandwidth in the 900 MHz spectrum to us, 20 MHz of bandwidth in the 800 MHz spectrum to LG U+ (consisting of 15 MHz of bandwidth that is scheduled to be relinquished by SK Telecom by the end of June 2011 following expiration of its license period and 5 MHz of currently unused bandwidth) and 20 MHz of bandwidth in the 2.1 GHz spectrum to SK Telecom, which SK Telecom began using in June 2010. New allocations of bandwidth to us and LG U+ will become effective on July 1, 2011. We expect to pay a portion of the actual sales generated from using the bandwidth in the 900 MHz spectrum during the license period of 10 years as a usage fee for the bandwidth, as well as a portion of expected sales as determined by the Korea Communications Commission at the time of allocation. In June 2011, the Korea Communications Commission announced its plan to auction in August 2011 the right to use 20 MHz of bandwidth in the 1.8 GHz spectrum that we are scheduled to relinquish at the end of June 2011, 10 MHz of additional bandwidth in the 800 MHz spectrum and 20 MHz of additional bandwidth in the 2.1 GHz spectrum. According to the plan, a maximum of 20 MHz of bandwidth may be sold to a single service provider, and SK Telecom and we are prohibited from bidding for the 20 MHz bandwidth in the 2.1 GHz spectrum. If we are allocated the bandwidths in the 800 MHz or the 1.8 GHz spectrums, we expect to pay usage fees for such bandwidths. The new allocations of bandwidth could increase competition among wireless service providers, which may have an adverse effect on our business.

We also plan to put more focus on the Internet protocol (or IP) media market, and we began offering IP-TV service on November 17, 2008. IP-TV is a service which combines video-on-demand services with real-time high definition broadcasting via broadband networks. The Korea Communications Commission has the authority to regulate the IP media market, including IP-TV services. Under the Internet Multimedia Broadcasting Business Act, anyone intending to engage in the IP media broadcasting business must obtain a license from the Korea Communications Commission, and anyone intending to engage in the broadcasting of certain contents must obtain additional approval of the Korea Communications Commission. In addition, KT SkyLife Co. (formerly Korea Digital Satellite

Broadcasting Co., Ltd.), which became our consolidated subsidiary starting in 2011, offers satellite TV services, which may also be packaged with our IP-TV services. KT Skylife is also subject to the regulation of the Korea Communications Commission pursuant to the Korea Broadcasting Act.

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

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

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

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

In the past, allegations that serious health risks may result from the use of wireless telecommunications devices or other transmission equipment have adversely affected share prices of some wireless telecommunications companies in the United States. In May 2011, the International Agency for Research on Cancer (“IARC”) announced that it has classified radiofrequency electromagnetic fields associated with wireless phone use as possibly carcinogenic to humans, based on an increased risk for glioma, a malignant type of brain cancer. The IARC is part of the World Health Organization that conducts research on the causes of human cancer and the mechanisms of carcinogenesis, and aims to develop scientific strategies for cancer control. We cannot assure you that such health concerns will not adversely affect our business. Several class action and personal injury lawsuits have been filed in the United States against several wireless phone manufacturers and carriers, asserting product liability, breach of warranty and other claims relating to radio transmissions to and from wireless phones. Certain of these lawsuits have been dismissed. We could be subject to liability or incur significant costs defending lawsuits brought by our subscribers or other parties who claim to have been harmed by or as a result of our services. In addition, the actual or perceived risk of wireless telecommunications devices could have an adverse effect on us by reducing our number of subscribers or our usage per subscriber.

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

Substantially all of our revenues are denominated in Won. Depreciation of the Won may materially affect the results of our operations because, among other things, it causes an increase in the

amount of Won required by us to make interest and principal payments on our foreign-currency-denominated debt, the costs of telecommunications equipment that we purchase from overseas sources, net settlement payments to foreign carriers and administrations and certain payments related to our derivative instruments entered into for foreign exchange risk hedging purposes. Of the (Won)7,248 billion total principal amount of long-term debt (excluding current portion) outstanding as of December 31, 2010, (Won)2,188 billion was denominated in foreign currencies with an average weighted interest rate of 4.70%. The interest rates of such long-term debt denominated in foreign currencies ranged from 0.77% (for US\$100 million notes with a floating interest rate of three month London Interbank Offered Rate plus 0.47%) to 16.50% (for Uzbekistani Som 2,259,000 (approximately US\$1.4 million) fixed rate notes issued by East Telecom, our subsidiary located in Uzbekistan). See “Item 3. Key Information–Item 3.A. Select Financial Data–Exchange Rate Information”, “Item 5. Operating and Financial Review and Prospects–Item 5.B. Liquidity and Capital Resources” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk–Interest Rate Risk.”

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

Risks Relating to Korea

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

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

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

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

- difficulties in the housing and financial sectors in the United States and elsewhere and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;
- declines in consumer confidence and a slowdown in consumer spending;

- adverse changes or volatility in foreign currency reserve levels, commodity prices, exchange rates (including fluctuation of the Dollar or Japanese Yen exchange rates or revaluation of the Chinese renminbi), interest rates, inflation rates or stock markets;
- continuing adverse conditions in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;
- increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;
- the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);
- the economic impact of any pending or future free trade agreements;
- social and labor unrest;
- substantial decreases in the market prices of Korean real estate;
- a decrease in tax revenues and a substantial increase in the Korean government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;
- financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain Korean conglomerates;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the occurrence of severe health epidemics in Korea and other parts of the world;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the supply of oil or increase in the price of oil;
- the occurrence of severe earthquakes, tsunamis and other natural disasters in Korea and other parts of the world, particularly in trading partners (such as the March 2011 earthquake in Japan, which also resulted in the release of radioactive materials from a nuclear plant that had been damaged by the earthquake); and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

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

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

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

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

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

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 Korea Communications Commission 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 Korea Communications Commission 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.

Holders of ADSs will not be able to exercise dissenter’s 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 dissenter’s 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.

Korean GAAP differs in significant respects from accounting standards applicable in certain other countries, including U.S. GAAP and the International Financial Reporting Standards.

Our financial statements included in this annual report are prepared in accordance with Korean GAAP and reconciled to U.S. GAAP. Korean GAAP differs in significant respects from accounting standards applicable in certain other countries, including U.S. GAAP. See “Item 5. Operating and Financial Review and Prospects—Item 5.B. Liquidity and Capital Resources—U.S. GAAP Reconciliation” and “—Recent Accounting Pronouncements in U.S. GAAP” and Note 38 to Consolidated Financial Statements.

In March 2007, the Financial Services Commission and the Korea Accounting Institute announced a road map for the adoption of the Korean equivalent of International Financial Reporting Standards (“Korean IFRS”), pursuant to which all listed companies in Korea, including us, will be required to prepare their annual financial statements beginning in 2011 that differ in certain respects from International Financial Reporting Standards (“IFRS”) applied in other countries.

In preparation of such adoption, we began preparing our internal financial statements under both Korean GAAP and Korean IFRS starting in January 2010. Beginning in 2011, we have discontinued reporting under Korean GAAP with reconciliation to U.S. GAAP and instead have commenced reporting under Korean IFRS and we also plan to release annual financial statements prepared pursuant to IFRS as issued by the International Accounting Standards Board, or IASB. Although our accounting department is currently analyzing the effects of adopting IFRS on our annual financial statements, it is not possible to estimate with any degree of certainty the exact impact on our annual financial statements from such adoption because the IFRS accounting policies to be adopted by us for such financial statements have not been finalized. Accordingly, there can be no assurance that the adoption of IFRS will not adversely affect our reporting results of operations or financial condition.

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 organization and shareholders’ rights were governed by the Privatization Law and the Commercial Code. Among other things, we began to exercise greater autonomy in setting our annual budget and making investments in the telecommunications industry, and our shareholders began electing our directors, who used to be appointed by the Government under the Korea Telecom Act.

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

Before December 1991, we were the sole provider of local, domestic long-distance and international long-distance telephone services in Korea. The Government began to introduce competition in the telecommunications services market in the early 1990’s. As a result, including ourselves, there are currently three local telephone service providers, five domestic long-distance carriers and numerous international long-distance carriers (including voice resellers) in Korea. In addition, the Government awarded licenses to several service providers to promote competition in other telecommunications business areas such as mobile telephone services and data network services. On June 1, 2009, KTF merged into KT Corporation, with KT Corporation surviving the merger, with the objective of maximizing management efficiencies of our fixed-line and mobile telecommunications operations as well as more effectively responding to the convergence trends in the telecommunications industry. See “Item 4.B. Business Overview-Competition.”