



A black and white photograph of a woman with long dark hair, smiling and looking at a mobile phone she is holding in her hands. The background is a soft, cloudy sky. The image is partially obscured by a dark blue vertical bar on the right side of the page.

## Mobile Communication, Mobile Internet, and Next...

Now we are moving into a world of instant limitless communication only dreamed of before. In this boundless communication world you can communicate all your hopes and dreams to anyone at any time, and anywhere. KTF with its space-age mobile communication technology will make this dream a reality.

04	Financial Highlights
06	CEO's Message
10	2002 at a glance
12	<b>Vision &amp; Strategy</b>
14	Vision & Management Philosophy
16	Increasing the Value
18	New Businesses
22	Global Business
24	<b>Business Review</b>
26	Market Overview
28	Financial Review
32	Voice Service
36	Wireless Data Service
42	Customer Satisfaction
44	Corporate Culture
46	Social Activity
48	<b>Financial Reports</b>
82	<b>Corporate Governance</b>
84	<b>History of KTF</b>

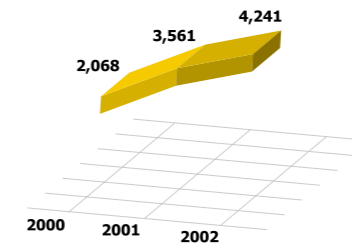
Financial Highlights

	(In billions of KRW)		
	2002	2001	2000
Service Sales*	4,241	3,561	2,068
Operating Income	844	748	253
EBITDA	1,560	1,275	497
Net Income	532	433	116
EBITDA margin**	37%	36%	24%

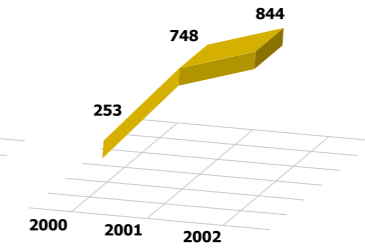
\*Service Sales : Handset Sales are not included

\*\*EBITDA margin : (Operating Income + Depreciation & Amortization - (Handset Sales - Cost))/Service Sales  
KTF merged with KTM.com in May 2001.

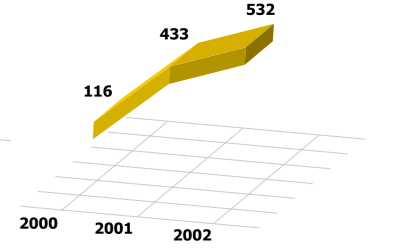
**Service Sales**  
In billions of Korean won



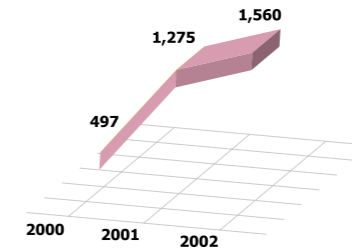
**Operating Income**  
In billions of Korean won



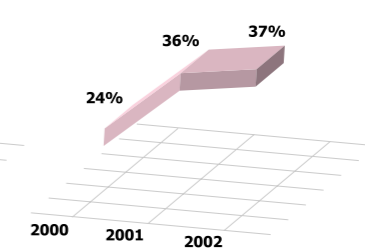
**Net Income**  
In billions of Korean won



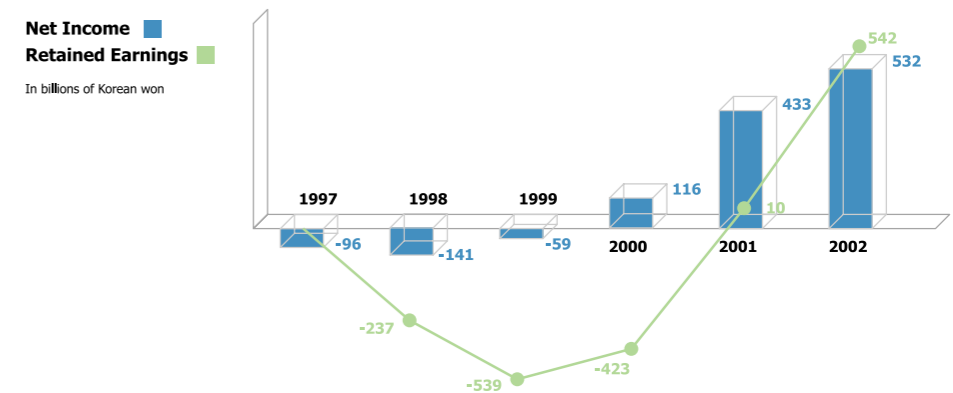
**EBITDA**  
In billions of Korean won



**EBITDA margin**



**Net Income** ■  
**Retained Earnings** ■  
In billions of Korean won



When you look closely, you will see substantiality.

When you see the current trends of KTF, you recognize more of its prospects for the future. The net income of KRW532.2 billion in 2002 is merely a start. It is only part of the fruit we harvested from our efforts of the last 5 years. Our efforts will bring greater and more rapid rewards as we keep aiming toward the growth in quality and speed. Although KTF is already a superior company that has established an excellent cash flow and stable income structure, we are not satisfied with these accomplishments, and promise to produce even more brilliant results in 2003.







## “All mankind dreams of a better future.”

Each step forward during the history of mankind has been due to dreams being fulfilled. KTF is challenging you to let us make your dreams come true. The limits of time and space have been barriers throughout the history of mankind. KTF is breaking those barriers and giving you the ability to effortlessly communicate anytime and anywhere. With our cutting-edge mobile communication technology, we are constantly turning your dreams into reality.

We at KTF want to express our deepest gratitude to all of our esteemed shareholders and to all of our 10 million customers. We truly appreciate the unqualified support and loyalty you continue to give us.

The year 2002 was very significant for KTF. In the short five year history of our company since its start in 1997, we have sustained an outstanding growth rate and reached several significant milestones. We solidified our stable income base by reaching ten million mobile phone subscribers in May 2002. Thanks to the continued increase in the number of subscribers, KTF achieved KRW5.353 trillion in total sales with net income of KRW532.2 billion in 2002.

moving up in the mobile communication market. This shift has been gaining momentum due to the introduction of CDMA2000 1x EV-DO network based high-speed wireless data service, streaming video handsets, and the continued development of a vast array of multimedia contents. In addition, the competition among domestic mobile communication service providers has become more ferocious. We have been working very hard to explore the

KTF will strive to make another leap upward by pursuing our visions of 'Substantial Management' 'Trustworthy Management' and 'Manpower Nurturing Management'.

First of all, KTF will be putting forth its best effort to perform 'Substantial Management' that creates optimal benefits for shareholders and customers. With this in mind, we will continue to pursue qualitative growth based on a sound financial structure focused on healthier cash flow, rather than focusing on quantitative growth. Moreover, we will keep maintaining our managerial transparency by enhancing the function of Board of Directors in terms of management structure.

Second, we are trying to gain the customers' trust as a base for corporate profitability growth, and value increase. As we build and increase the company's value through

'Shareholders Trust' and 'The Company that Customers Love' by continuing to produce maximum value for these two groups. With the vision of being your 'Mobile Life Partner', we promise to keep working to give you the effortless communication you need and want, without the limits of time or space.

It has been 5 years since KTF was launched with the vision of 'Creating The World's Best Company for Furnishing Unlimited Communication'. In spite of the rapidly changing business environment and fierce competition in the market, KTF now stands tall in the mobile communication industry both domestically and overseas. These accomplishments were made possible by our shareholders and customers. Your trust and loyalty lead us forward today.



KTF's remarkable financial performances and growing potential are now recognized internationally. We were awarded first place in the Mobile Communication category and ranked fourth place overall among 'The 100 Best World-Class IT Companies in 2002' chosen by Business Week.

These results were greatly facilitated by the ceaseless interest and kind consideration of our investors and customers, combined with the strong efforts of all KTF employees to maximize corporate value.

The Korean information & communication market environment in 2003 is changing more rapidly than ever before. The overall growth of voice-oriented market began to slow down, and the wireless data service area is rapidly

great potential of the wireless data area, and secure a market leadership position.

In terms of regulatory environments, the Korean government decided to introduce 'Mobile Number Portability' beginning in 2004. In this regard, the current marketing activities that were implemented by focusing on the mobile prefixes, such as 016 and 018, will be concentrated on 'Better Service and Quality'. Moreover, the opening of the wireless internet network and limited acceptance of a handset subsidy will greatly influence the whole market environment.

In order to fully respond to this rapidly changing market situation, we will strengthen our core competence in overall management, including marketing activities. Furthermore,

'Trustworthy Management', we will be able to generate more earnings and therefore more in returns back to our shareholders. We are making our best efforts to produce the maximum in value for our customers and shareholders with 'Clear and Trustworthy Management'.

Third, to successfully lead overall corporate management activities and fulfill its responsibilities to customers and shareholders, the development of first quality manpower is required. KTF will continue to pursue 'Manpower Nurturing Management' that allows us to seek out and foster excellent manpower that can earn the trust and satisfaction of our customers and shareholders.

Most of all, we will strive to create 'The Company that

We will continually put forth our very best effort to repay you for your support by creating and returning maximum benefit to each and every one of you.

Keep watching us thrive and grow while the name KTF is being noticed and increasingly valued all over the world. Thank you.

March 2003  
Joong Soo Nam, President & CEO of KTF



# During the year 2002, KTF has become the key player in creating a new history of world mobile communication.



## January

**First Place in the Survey of Mobile Phone Call Quality**  
KTF was ranked in first place by receiving 180 AA grades in the Survey of Mobile Phone Call Quality implemented by the Information Communication Service Quality Evaluation Council.

**The Launch of CDMA Business in India**  
KTF reached an agreement with Reliance Infocom, one of the four mobile communication operators in India, to provide a CDMA technology consulting service, worth 10 million US dollars over 3 years. The technology consulting service includes network construction, operation, repair, and maintenance.

**Lowering Mobile Phone Service Rates**  
Mobile phone service rates were lowered an average of 4.3% including monthly flat rate cut of the Standard Plan from KRW16,000 to KRW15,000 and 7 minutes of free calls for some price plans.

## February

**Launch of the World's First Mobile On/Off-line Payment Service**  
KTF launched an advanced Mobile Payment service that allows customers to conveniently make payments with infrared communication via mobile phone without the use of credit cards.

**The Commercialization of Location-Based Service (LBS)**  
KTF commercialized 'Geleye', Korea's first precise LBS that uses the information sent from base stations and location tracking satellites.

## March

**International Roaming Contract with China Mobile**  
According to the International Roaming service contract signed by KTF and China Mobile, the subscribers of both KTF and China Mobile can use their mobile phone with their original mobile phone numbers, while visiting Korea and China. This service is based on international automatic roaming technology enabled by a SIM Card.

**Approval for Introducing Outside Director System and Audit Committee**  
In accordance with a revision of the Articles of Incorporation in the 5th Annual Shareholders' Meeting, 5 directors (including 2 non-standing directors) and 5 outside directors were appointed. At the same time, the Audit Committee was formed with 3 of the outside directors.



## April

**Strategic Alliance with China Unicom**  
KTF and China Unicom reached a cooperation agreement for mobile communication service. According to the agreement, the Chinese version of KTF's Multipack service will be provided, and the joint development of CDMA multi-functional handsets will be implemented. Moreover, Automatic Roaming service will be offered in both China and Korea.

**The Launch of Korea's First Integrated Brand of Wired and Wireless E-Commerce**  
KTF launched 'K•merce' that enables easy and safe 'Mobile Commerce' transactions, such as finance, shopping, and payment anywhere and anytime through a single mobile phone. This has opened up the mobile payment era.

**Ceremony for Declaration of Compliance Program for Fair Transactions**  
KTF revealed a Compliance Program for fair transaction for the first time in Korea. This program focuses on appointing responsible directors, removing any unfair business practices through internal monitoring and punishment, as well as improving call quality and customer services.

## May

**The Launch of the World's First IMT2000 Service ('fimm')**  
KTF provides this multimedia service at a data transmission speed of maximum 2.4Mbps for the first time in the world via mobile phone. 'fimm' service offers such multimedia services as Multi-message, Multi-vision, Multi-O, and Multipack, among others.

**Young Kyung Lee, President of KTF, Received 'Outstanding CEO Award'**

The president of KTF won the 'Outstanding CEO Award' among the Korea Management Awards given by the Korea Management Association. He was recognized for remarkable management achievements such as generating a large-scale black-ink balance, contributing to the global IT industry, and creating a 'New Positive Labor-Management Culture'.

**Reaching 10 Million Mobile Phone Subscribers**  
Four years and eight months after the first launch of service in October of 1997, the company reached 10 million mobile phone subscribers. This rapid growth was made possible by the segmented innovative brand strategy, and 'magic', Korea's largest wireless internet service.

## June

**KTF Won the '3G CDMA Achievement Award'**  
KTF was internationally recognized for its outstanding technology and contributions to 3G CDMA development, and received the '3G CDMA Achievement Award' at the '3G World Conference' held in Hong Kong.

**'The 100 Best World-Class IT Companies in 2002' chosen by Business Week**  
The company was awarded first place in the Mobile Communication category and ranked fourth place overall among 'The 100 Best World-Class IT Companies' chosen by Business Week. This world-prominent magazine commented that KTF together with Korean mobile communication providers had been setting the global standard to the 3rd generation mobile communication technology and their excellent services and products were standing tall on the world's stage.

# The challenges for increasing customers' satisfaction and shareholders' value will never cease.



## July

**Full Scale Launch of Wired and Wireless Photo Service Business through affiliation with Fuji Film Korea**  
A new era in on/off-line portal photo service through mobile phones has been created. KTF provides a total mobile phone photo service for digital and mobile phone photos by directly connecting the Fuji Film Developing Facilities to the 'magic' wired and wireless internet service.

## August

**Opening of the 'K•merce Shopping Mall'- A Wired and Wireless Portal Shopping Mall**  
With a most convenient and efficient one-touch service, 'K•merce Shopping Mall' service connects customers, through their mobile phones, to the internet shopping malls, including 'Interpark'. Through this service, customers can also join in great sales, and all kinds of prize events, as well as getting coupon discounts.

**Inauguration of the President Kyung Joon Lee**  
Kyung Joon Lee was placed in office as the third president of KTF, following the leaving of Yong Kyung Lee as president of KT.

## September

**Launching of 2Ring Service as a New Concept in Bi-directional Call Connection Sounds**  
Instead of a conventional mechanical call sound, 2Ring Service lets customers choose their favorite sounds as the call connection sounds. It includes Ring2Me for the sound of myself

and Ring2You for the sound provided to opposite party.  
**Starting the Mobile Phone Photo Business Card Service for the First Time in Korea**  
This service enables creation of customers' own photo business card through magic, and allows for sending and receiving photos with other people through mobile phones.

**Receiving 'Certification for the Highest Services Quality in 2002'**  
KTF's three 'Members Plaza facilities', Cyber Customer Center, and Sales Agencies got the Highest Service Quality Certification grades in the nation in surveys conducted by the 'Korea Management Association'. In particular, the Members Plazas in metropolitan area were rated as the best on a worldwide level.



## October

**Receiving 'Excellence in Private Information Protection' for KTF's all websites**  
This achievement of acquiring 'The Excellence Certification in Private Information Protection' is due to the company's continual development of new and better ways to serve the needs of its valued customers. This was a first in the mobile communication industry.

**Receiving 'The 2002 Korea Grand Prize in the Internet Commerce Field'**  
Joo Young Song, executive managing director of KTF's New Business Division, won the e-CIO Prize in the category of the '2002 Korea Internet Grand Prize Awards to Management' sponsored by the Korea Management Association.

**Acquisition of KTICOM's shares**  
The company decided to purchase 15% shares of KTICOM (Total 15 million shares) in the open market from October 23rd to November 5th. Each price is KRW18,227 per share.

## November

**Winning 'The 2002 Grand Prize' in Customer Satisfaction Management category**  
KTF won 'The 2002 Grand Prize' in Customer Satisfaction Management category sponsored by the Korea Management Association Consultants Inc. The company was recognized for playing a leading role in increasing customers' satisfaction and value.



**Launching World's First IC Chip-based Handset for Mobile Payment**

The company introduced K•merce phone for mobile payment. This handset can be used as credit card and transportation fair payment card as well by inserting IC Chip that contains individual credit information, into the K•merce phone.

**Decision to Acquire 46.58% of KTICOM's Shares Owned by KT**  
As KTF decided to purchase 46.58% of KTICOM's shares owned by KT for KRW 18,227 per share, the company acquired a total of 87.27% of KTICOM's equity share.

## December

**Approval for the Merger with KTICOM and Signing Merger Contract**  
On December 14th, KTF and KTICOM Boards of Directors approved the merger between the two companies. Accordingly, on December 20th, both companies officially signed the contract for small-scale merger. For every KTICOM share, 0.55636 shares of KTF will be allocated.

**Being Selected as 'The Best Company' in the Category of Creating a New Positive Labor-Management Culture in 2002**  
In the recognition of maintaining an exemplary deed in Labor-Management relation, KTF was chosen as 'The Best Company (Award from the President of the Republic of Korea)' in the category of Creating a New Positive Labor-Management Culture in 2002, jointly sponsored by the Ministry of Labor and the Korea Economic Daily.



# We Develop the Standard for the World

KTF, as a company that keeps developing cutting-edge technology that advances mankind, is setting new world's standards. In the history of mankind only a few companies have achieved that status. We will continue to march toward the goal of fulfilling the ultimate dreams of mankind. Last year's outstanding achievement of reaching 10 million subscribers and KRW532.2 billion of net income are landmarks on that journey. We keep striving to increase our profitability in the existing business area by having a sound and stable financial structure. We also put forth our best efforts toward being the one of the leading companies in the world by taking initiative in new business areas and developing global business with effective marketing strategies.

KTF, the company that represents the world standard in the mobile communication industry, keeps on making dreams come true for the global community.

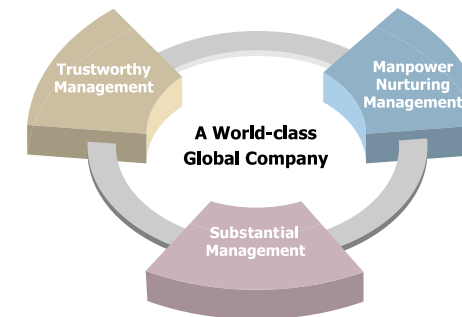


# Limitless freedom of communication around the world is every people's dream, and fulfilling that dream is the vision of KTF.

With value-focused management by the fully qualified management in whom people have put their trust, KTF as a 'Mobile Life Partner', will always be working toward fulfilling our customers' fondest dreams.



## | Management Philosophy | Trust, Substantiality, Manpower |



"KTF is committed to becoming a world-class company that satisfies customers, shareholders, and employees. We will accomplish this goal based on these 3 management philosophies."

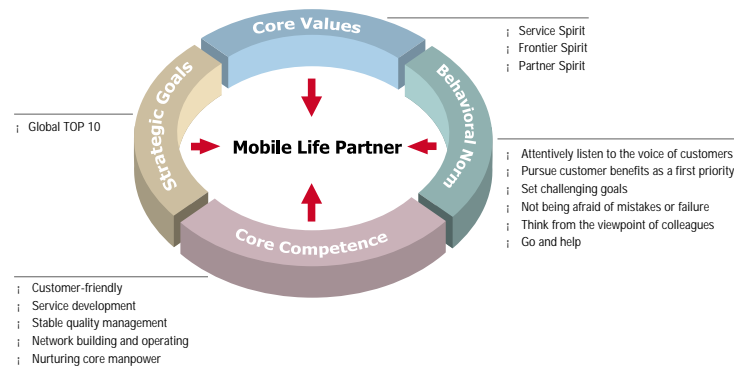
## | Our Vision | Being Your Mobile Life Partner |

"KTF brings the enjoyment of total freedom into people's life by providing superb information communication services anywhere and anytime."

'A Mobile Life' means having valuable information provided through the finest mobile network that are customized to satisfy customers' needs. This 'Mobile Life' is designed to touch and enhance every area of people's life by giving them enjoyment and satisfaction in their business, private, and leisure lives.

'Partner' means that we will always be there to serve our customers with customized mobile services that enhance the quality of their lives. This also means for our corporate members that like a good life partner, we will be ever mindful of their individual needs and desires, and be doing our very best to fulfill them.

KTF, as the 'Very Best Customer-Centered Company' has been seeking out and cultivating new business fields that allow us to provide better information & communication services that perfectly fit our customers' diverse needs. Our primary focus is to keep bringing more value to our customers by meeting the customers' every need and satisfying their fondest desires. KTF is continually developing innovative new technologies that produce network and multimedia capabilities that break the limits of time or space. As a 'Mobile Life Partner', KTF not only brings happiness and convenience into people's life, but also becomes a company that our customers can put more trust and confidence.



### Trustworthy Management

In an era of global standards, 'Trust' is the most important survival factor for companies. Forming trustworthy relationships with concerned parties such as customers, shareholders, and business partners, is a powerful base to support and grow our corporate value and strengthen our competitiveness. We will solidify a trustworthy relationship with our customers, externally concerned parties and employees by understanding and treating them as true helpmates in fostering constant growth for the company.

### Substantial Management

The top priority of companies should be increasing corporate value through maximizing shareholders' value. We will keep placing the focus of our management on profit-based growth rather than quantitative growth, and sound cash flow rather than mere financial gains. At the same time, we will maintain managerial transparency by keeping a management structure ruled by the Board of Directors. In addition, KTF will actively carry out social contribution in order to fulfill our responsibility as a corporate citizen and help toward repaying the boundless love that our customers have shown us.

### Manpower Nurturing Management

An enterprises' key competitiveness comes from its manpower. The best systems and organized development strategies can be useless without the dedicated manpower to implement them. We will put forth our best efforts to find excellent manpower from both inside and outside the company and build a core of excellent manpower to ensure a bright future for our company. To this end, KTF will motivate its members to develop their talents voluntarily by providing them with fair evaluations and just rewards. We are committed to creating an open corporate culture, in which all members of the KTF can freely share their vision.





Our management focus is on the bottom line.

This produces maximum company value and yields the most profitable return to our shareholders.

In 2001 KTF completely resolved its accumulated deficit, forming a strong foundation to accelerate the initiation of profitable management measures. In addition, with management focused on the bottom line, we are still constantly striving to increase sales and carefully chosen investments in conjunction with our effective cost saving management.



#### Increasing ARPU

Our existing 10 million subscribers are the main source of stable income production, and this will continue into the future. In the mature stage of the voice market, increasing ARPU (Average Revenue per User) by accommodating and keeping high quality customers as well as acquiring new subscribers is important. To this end, We keep steadily increasing ARPU by the management aimed at the High-end Users, and effective CRM tailored for each customer having different value.

#### Maximizing Wireless Data Service

The wireless data service, which enables use of the internet through the mobile phone and PDA, is rapidly growing and becoming a new cash cow. KTF has already attained leading position in the wireless data service area and keeps maintaining unbeatable competitiveness by providing outstanding and unequaled multipack service of differential wireless platform. Currently we are aggressively targeting and developing rich contents for younger generation, which is age group most actively involved in using wireless data. We will strive to create stable growth by concentrating on wireless data market which has a tangibly stronger future potential compared to the voice-oriented mobile communication market.

#### Becoming a Strong 3G Leader through the merger with KTICOM

In 2003, to improve long-term prospects, KTF decided to merge with KTICOM which has a 2GHz asynchronous IMT2000 service license. This better prepares us to attain stronger growth position and superior competitiveness in the next generation mobile communication service area. Under the known condition that KTF is already providing IMT2000 service based on CDMA2000 1x EV-DO network, the merger was designed to prevent possible redundant investments in building network infrastructures for IMT2000 service. It also yields a strong synergistic effect toward creating a more effective and powerful operating network. Accordingly, the investment in 3G service will follow merged company's carefully and realistically designed plans considering the potential demands for wireless data, the future market trend, and competition environments. Equipped with superior resources and competitiveness, KTF is ready to spring forward into the high speed wireless data market, thus maintaining its true leadership position in the coming 3G era.

## KTF brings you the remarkable IMT2000 service that surprises the whole world.

KTF lets you to be a proud user of a mobile phone. Streaming video, a mobile payment system in which you can purchase goods, and a business solution that allows you to share data and communicate with your company anytime and anywhere, are all possible with our mobile communication system. With IMT2000 service, KTF opens a new future in world communication.



| fimm will leave you awe-stricken ! KTF's IMT2000 Service |

surprise!  
**fimm**

fimm is a KTF's high-speed wireless multimedia service that allows us to enhance and diversify our current earning structure of the voice communication business. We launched the brand name 'fimm' by successfully commercializing the IMT2000 service that is a new core growth engine in the future. 'fimm' will make KTF the new leader in the beyond-voice communication market.



### fimm as the World Cup Hero

fimm is the IMT2000 brand first introduced worldwide at the opening ceremony of the World Cup in May of 2002. The whole world enjoyed, and was astonished at fimm's superb service that provided real-time World Cup broadcasting by mobile phone during the World Cup games at all 10 stadiums. Foreign visitors also had personal and direct opportunity to experience the superior quality of fimm service.

### Key Factor of KTF's Wireless Data Service in 2003

In the beginning stages of the wireless data market, sending and receiving simple short message was the major service content. Rapidly growing and changing wireless data technology that maintains stable data speed through the network upgrade from 2G to 1x, and color handsets that enable many kinds of multimedia services, greatly activate wireless data services. The remarkable innovations of fimm service now allow provision of a wide range of rich content such as downloading variety of ring tones and characters, mobile games, cartoons, and stock trading, among others. In particular, KTF contributed a great deal to increase multimedia wireless data service by introducing the Icon-based multipack service that is highly upgraded and simple and easy to use. The use of Video-On-Demand (VOD) service that is KTF's key content has been increasing in the wireless data market since the end of 2002. This means fimm will be more popular and in greater demand with its excellent VOD service. Eventually, KTF has firm plans that will keep it in a leading competitive position in wireless data business area by continually developing new advanced services.

### fimm as a Highly Competitive Wireless Multimedia Service

fimm is the only data service in Korea that provides real time broadcasting of 10 TV channels (including cable TV) through video streaming handsets. In addition, fimm has captured the interest of the younger generation by providing content they prefer, such as music videos and concerts. As an example, fimm has an exclusive contract for broadcasting rights with Seo Tae Ji, the nation's most popular musician and possesses the largest fan base. 'fimm' also has a superior competitive position in the VOD service through developing and introducing VOD exclusive price plans. At the same time, fimm is not only constantly bringing customers an excellent variety of services, but is also developing exclusive fimm terminals that allow customers to freely use a wide variety of high capacity contents.





New Businesses | K•merce, VIZ, Wired and Wireless Combined Service

| 'K•merce' as the Korea's First Player of M-Commerce | **K•merce**

We are living in a new paradigm of our economic life, and the new era of financing is converting from paper money to plastic and mobile money. K•merce is the representative of people's new economic life. The name K•merce was made by combining the two words of Korea and Commerce, and with it you can easily conduct all kinds of business transactions such as stock trading, banking, credit card transactions, shopping, and using coupons through your mobile phone. K•merce provides revolutionary value that brings economic freedom and convenience to people's daily lives.

It did not take long time that the mobile phone became the instrument of choice for data communication beyond voice communication. With K•merce, customers will see in the near future that the mobile phone can be the central tool for all kinds of economic activities. KTF always brings people's dreams and imagination into reality. When most people had not yet heard about the word of M-Commerce, KTF had already created the brand 'K•merce' to carry people into an economic dream world. Furthermore, KTF opened up the mobile payment era by having introduced post-payment transportation card and credit card function-installed terminals for the first time in the nation. We are also expanding M-commerce by allowing customers to connect to the great 'K•merce Shopping Mall' which offers totally linked fixed and wireless convenient internet one stop shopping.

To effectively carry out M-commerce projects, and keep maintaining a leadership position, KTF is focusing on optimal utilization of existing mobile communication operators' resources such as customer information, mobile infrastructure etc, and continually seeking strategic affiliations with other leading business providers for obtaining new business resources. The domestic M-commerce market is still in the first stage of moving toward full expansion. KTF knows the potential and endless possibilities in this field, and is fully equipped to meet the challenge and win this limitless opportunity. To accomplish this, we at KTF are constantly putting forth our best effort to develop new and outstanding wireless communication services. This not only serves our customers well, but it is also the source of our strong competitiveness in the market, and our mission to successfully lead us all into a bright future for the communication business.



| 'VIZ' as a Business Solution for Leading Companies |



**VIZ is an essential necessity for modern business operation**

Mobile communication goes far beyond the mere role of a communication tool for individuals, and has become a main tool for the modern companies' operation and management. With 'VIZ', companies can conduct more successful marketing strategies and enjoy a better competitive position by acquiring faster and more accurate information. 'VIZ' is a mobile communication service for exclusive use of corporate clients. This service offers the solution that lets businessperson carry out innovative and effective business management.

'VIZ' contains a variety of excellent quality services. Some of its service content are: 'Telematics Service' that provides vehicle location information, and traffic and vehicle safety information based on a combination of mobile communication and GPS technologies, 'LBS Service' that gives all kinds of useful location information through a terminal in the wired and wireless mobile communication environment, 'Wireless Modem Card Service' which lets customers more easily and simply use data communication than was possible through existing cable and mobile phones. 'VIZ' provides exclusive and unequalled services that satisfy the businesspersons' needs. Recently, we introduced the world's first 'Safe Card Service' that on a beforehand basis prevents illegal use of credit cards by tracing the location of shops and the mobile phone. It is acknowledged as a revolutionary service that prevents credit card crime and contributes to a healthy and trustworthy credit card culture through a close secure linkage between credit card companies and mobile communication providers.

KTF, as your business partner, keeps producing a successful and bright business future. We are constantly developing and providing new business solutions in all areas of the business field.

| A Powerful Source of Competitiveness, **'Wired and Wireless Combined Service'** |

**'KT' - The best partner in the combined wired and wireless era!**

KTF and KT, the Korea's best and biggest fixed line communication service provider, are in one business group. This union establishes an unchallengeable competitiveness in the current communication market segment that is linking wired and wireless communication together as one. Both companies' specialties, mutual cooperation, and bilateral assistance, will keep us marching forward into new business areas that create new values for our customers. The combined synergy of KTF and KT will lead the future communication market in developing and providing outstanding services that completely meet the customers' diverse needs.

KTF secured reasonable service rate plan and mobility at the same time by combining its wireless data service based on PDA and the wireless modem with wireless LAN service of KT. This allowed our customers to conveniently use high-speed wireless data services anywhere and anytime. Being an exclusive partner with KT is to our privileged advantage that other mobile communication operators cannot obtain. With this asset and the powerful synergy effects, KTF is positioned to produce the maximum in value for its customers and shareholders while constantly launching new competitive businesses in the market.



## National boundaries do not exist in the world of information transmission. KTF's mobile communication service is standing tall on the world stage.

The global world of mobile communication requires a standard technology that overcomes the barriers of national boundaries and languages. KTF, with its world standard technology, is not satisfied with being the best in the national industry. We at KTF keep investing in, and expanding into, the international market and we are willing to launch into every corner of the global community. In spite of severe competition in the global market, we are devoting all of our energies toward becoming the world best communication provider with the spirit of pioneer.



### CDMA Engineering Consulting

CDMA Engineering Consulting is the area in which KTF first started global business through the superb technological base already formed in the nation that originated CDMA technology. In 1999, KTF began to supply CDMA Engineering Consulting and Network Management Solutions to Hutchison in Australia. In 2001, we received great recognition by supplying CDMA Engineering Consulting to Comselindo in Indonesia. Currently, KTF is providing CDMA Engineering Consulting and Network Optimization Project worth 10 million US dollars during three years, to Reliance Infocom in India.

KTF is proud to have developed the world's most stable and feasible technology that maintains top call quality even when using it in the subway whether it is running or stopped. We are also exporting the Network Management Solution named 'NetCommander' and its optimization tool called 'NetSpider' to Australia, India, Taiwan, Japan and many other countries. These solutions and tools were solely developed by KTF and have given outstanding performance throughout its 5 years of successful operation in Korea.

### Wireless Data Service Solution

KTF has been developing and supplying highly advanced wireless multimedia service solutions into the world's wireless data market that has limitless potential compared to the somewhat matured voice market. As the Korea's number one wireless internet service provider, KTF is confidently presenting the best services. This includes such things as SMS-based wireless data service, ME Browser-based magic Service, and the Brew platform-based multipack Service that was commercialized in November 2001. With our operation know-how accumulated for the last five years, we furnish these customized solutions that perfectly fit each network capacity of wireless network operators in the world. In addition, by starting to provide the ring tone downloading solution to Hutchison in Hong Kong, KTF continues to expand its export market all over the world, while concentrating on China where explosive increases in the wireless data market are occurring, Southeast Asia, and the U.S.

### NetSpider / NetCommander

NetCommander is a network management system designed to operate based on TMN (Telecommunication Management Network) technology which is the world's first network management standard of the ITU-T. KTF supplied this solution and consulting to the network management center of Hutchison in Australia. We also reached business agreements for providing this solution with China Unicom and other network operators in Taiwan, India, and Southeast Asia. The wireless network design system called 'NetSpider' is the frequency wave analysis model which supports a most adaptable wireless network design through the most precise analysis data regarding the configuration of the ground and its natural shape. KTF is exporting this technology to Fujitsu and Mitsubishi in Japan, and is ready to introduce it to the U.S. market.

### Marketing and Terminal Consulting

We are constructively exporting the skills of operating distribution channels and marketing capabilities accumulated in the domestic mobile communication market. Besides, we have begun exporting terminal device manufacturing technology, and production and sales-related consulting in cooperation with KTFT. KTF has already supplied CDMA consulting in Indonesia, and is in the process of affiliating with the CEC Group in China in a joint project for handset manufacturing, as well as in the middle of discussions regarding marketing consulting with the companies in Taiwan and Thailand.

### Establishing Global Cooperation Relationships

To reach our goal of positioning ourselves as a major player in the world's mobile communication industry, and attaining leadership in the global market, we are establishing a close relationship with wired and wireless communication carriers in many countries. KTF has concluded a comprehensive cooperation agreement with J-Phone in Japan, executed a strategic affiliation in the CDMA field with China Unicom, and contracted for a CDMA handset manufacturing affiliation with CEC in China.



# We Produce Freedom in Your Life

All mankind has the right to enjoy freedom and pursue a dream. All of us pursue all kinds of freedom in our lives. The freedom to act, move, be educated, work, and live happily! We at KTF, through mobile communication, create more freedom in your life, and make your dreams become reality. Our ultimate goal is to enhance the freedom and happiness in your life. Anyone can get a lecture or medical treatment from a far distance and anyone can communicate with a loved one while looking at their faces without the barriers of time and space. KTF will always be right there to create better and richer moments for you.

Market Overview

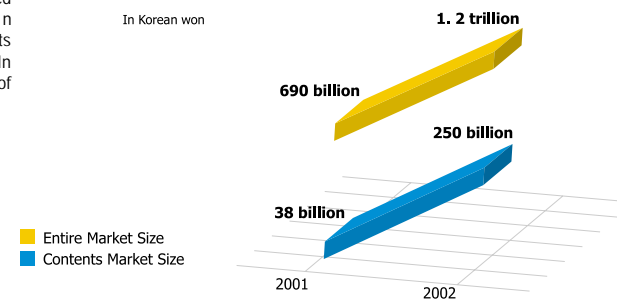
We are creating a new paradigm that will lead to a huge wave of change in a new communications environment.



Domestic Mobile Communications Market Overview

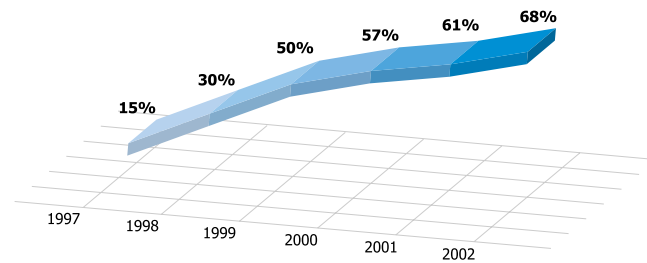
In 2002, the domestic mobile communications market was marked by remarkable growth compared to that in 2001. The penetration ratio of mobile communications reached 68%, increasing about 6% over the previous year. In particular, the market size of wireless internet and contents grew 180%, and 650% respectively, from 2001 to 2002. In addition, mobile operators' data sales as a percentage of their total sales, increased by 240%.

< Trend of Growing Market Size >

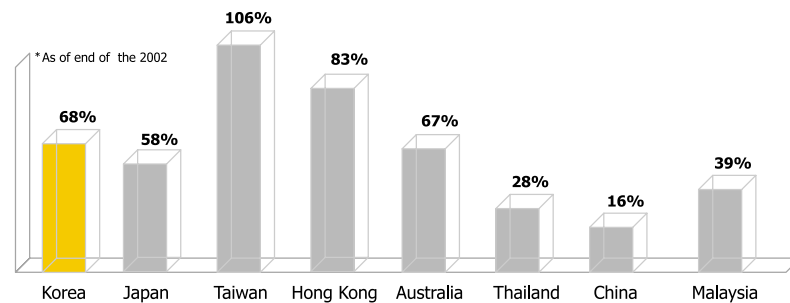


This growth of the mobile communications market can be attributed to the increased customer demand for, and usage of, CDMA2000 1x service and color handsets. The CDMA2000 1x service and color handsets that were launched into the market in a full-fledged manner at the end of 2001, recorded a market penetration ratio of 51% and 28% respectively as of the end of 2002.

< Trend of Increasing Penetration Ratio in the Korean Market >

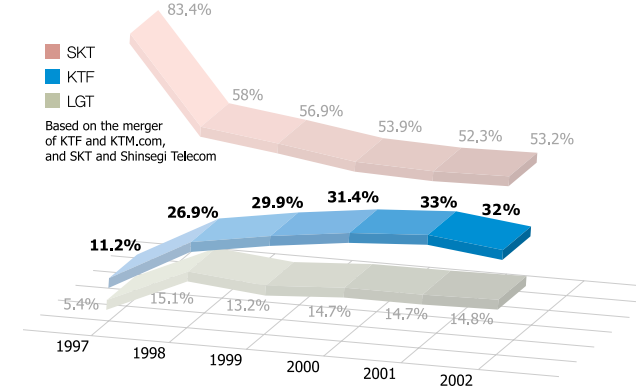


< Comparison of Penetration Ratio with Other Countries >

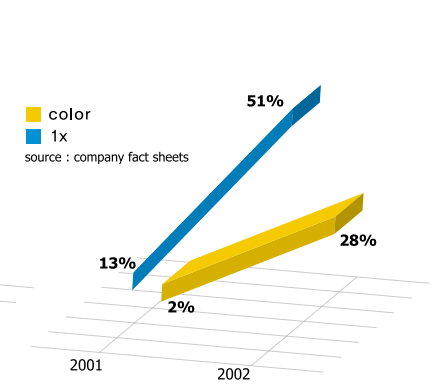


In this fluid market situation, KTF has achieved steady growth since the company first launched its commercial service in October 1997. As a result, KTF gained a 32% share of the market as of the end of 2002.

< Trend of Market Share per Mobile Communication Service Providers >



< Penetration Ratio of 1X and Color Handset >



Major Issues in the Domestic Mobile Communications Market in the Year 2003

The main growth momentum of the domestic mobile communications market in 2003 can be summarized in the following 3 factors.

First, advanced network infrastructure like CDMA2000 1x, EV-DO and W-LAN enables provision of economical and top quality wireless internet service. We expect that this will rapidly increase wireless internet's penetration of the market, just as the usage rate of the ADSL-based wired internet service was greatly increased by introducing a flat rate plan for it.

Second, the high penetration of camera equipped handsets and color displayed handsets is expected to contribute to a rapid sales increase in wireless internet service as amply demonstrated in the Japanese marketplace. Picture and VOD transmission services together with a wide range of color-screen-based multimedia services will satisfy the customers' diverse demands for sophisticated communication ways. At the same time, this will have effects on other industries by leading the convergence of digital electronic appliances and mobile phones, and bringing participation by new players' into the mobile communications market.

Third, recently KTF determined to open wireless internet network, and other domestic mobile communications providers are expected to gradually open their networks as well. The general effects of wireless internet network opening can be obtained by executing billing service in place of every content provider who uses the wireless internet network. In this regard, the number of wireless internet sites, which currently numbers little more than one thousand, will be greatly increased to many thousands. Accordingly, new usage patterns of wireless internet services and their business

models will be introduced. This illustrates the potential for extremely rapid growth and a bright future for overall wireless internet market.

Business Prospects and Regulatory Environment Changes in 2003

The rapid changes in business environment keep accelerating in the mobile communication market due to converting from voice-oriented service to wired and wireless-integrated communication, and combined voice and data communication. Moreover, the convergence of telecommunication and broadcasting services is complicating the growing mobile communication market. As the industry grows, government's regulations are expected to change and the possible issues to be implemented are as below.

First of all, Interconnection Systems are expected to improve through considering introduction of Service Rate Limit System and Efficient Long Run Incremental Cost System, etc. In particular, the adoption of 'Successive Mobile Number Portability', confirmed by the government to be activated from the year 2004, will be favorable to KTF as a latecomer in the industry. Meanwhile, current mobile prefix number will no longer carry its former weight, but service quality will certainly be the deciding factor to compete in the market.

In this regulatory environment, KTF will be constantly striving to construct positive and cooperative relationships with other mobile service operators in order to enhance effectiveness in attaining mutual goals. We are also maximizing our efforts to make domestic mobile communication industry prosperous with government's fair and effective regulatory policies.



## Financial Review

We are building a strong profitable structure through value-oriented management.

In the year 2002, KTF executed an incredible feat by acquiring 10 million subscribers in the shortest time in the history of the industry. We also achieved the largest net income (KRW532.2 billion) in the company's history, in spite of reducing service use rates and interconnection fees. One of the main factors in producing this excellent growth has come from maximizing the synergy effects that resulted from the merger with KTM.com in 2001. There were also other factors that helped us accomplish this outstanding growth.

1. A management policy that puts first priority on yielding maximum value for the customers and shareholders and continues to benefit them
2. Remarkable increase in the number of 1X subscribers who contribute more to profitability than 2G subscribers
3. Large increase of APRU in the Data Service area due to the highest quality of technology and services
4. Significant reduction in the acquisition cost per subscriber due to effective marketing approaches
5. Decrease of bad debt ratio for subscribers' service use fees

## Summarized Income Statements

In millions of Korean won

	2002 (1.1-12.31)	2001 (1.1-12.31)	2000 (1.1-12.31)
Total Sales	5,353,073	4,468,026	2,768,033
Operating Expenses	4,508,882	3,720,237	2,515,514
Operating Income (Loss)	844,191	747,789	252,519
Non-operating Income	76,971	106,117	45,401
Non-operating Expenses	308,719	292,887	129,492
Ordinary Income (Loss)	612,443	561,019	168,428
Extra Ordinary Gains	-	-	-
Income (Loss) before Taxes	612,443	561,019	168,428
Income Tax	80,280	127,992	52,471
Net Income (Net Loss)	532,163	433,027	115,957



## Sales

The revenue from monthly fees and call charges increased due to growth in numbers of subscribers. In addition, the sales of value-added services increased by 101% due to the launch of CID and 2Ring service, and activation of data service by increasing numbers of 1x service subscribers (especially, the color handset users).

In millions of Korean won

	2002	2001
Service Sales	Activation Fee	87,397
	Monthly Fee	1,314,318
	Call Charge	1,057,055
	Value-added Service	203,459
	Interconnection Fee	843,986
	Others	3,775
	(Sales Discount)	(81,124)
	KT re-sales	101,310
	Specially-designated Communication	25,175
	E-Commerce	1,026
	Additional Business	4,185
Sales in Handset Distribution	907,464	1,111,619
Total Sales	4,468,026	5,353,073

## Operating Expenses

Total expenses came to about KRW1.1 trillion due to the new investment in 1x network construction. Operating expenses in 2002 were KRW4.51 trillion, increasing KRW790 billion over the KRW3.72 trillion the previous year. The major contributors to the increasing costs were transferring, installing, repairing, and maintaining base stations required for the frequency integration designed to increase the efficiency of the existing 2G networks.

Meanwhile, the percentage of marketing costs in the company's total operating costs gradually reduced reaching 16% (KRW871.6 billion) in 2002 from 17% (KRW775.2 billion) the year earlier. In addition, Bad debt expenses from subscribers' service use fees drastically lowered to KRW23.6 billion in 2002 from KRW68.2 billion the previous year. This shows great improvement in both quality and value for each subscriber.

As a result, despite overall operating expense increases year on year, EBITDA, excluding the handset distribution area, showed constant improvement by totaling KRW1.56 trillion (EBITDA Margin 36.8%) in 2002 versus KRW1.28 trillion (EBITDA Margin 35.8%) in the year 2001.

## Non-operating Items

Interest cost in 2002 came to KRW216.1 billion a reduction of KRW14.9 billion from the KRW231.0 billion in 2001. This drop in interest cost was largely attributable to the continued reduction of interest payment on debts caused by the fact that the company primarily repaid the debts with retained cash.

## Income Taxes

The company carried over the accounting loss incurred by merging with KTM.com. Thus, the income taxes will be reduced in accordance with the net income generated from the business area of the former KTM.com within the limit of the accounting loss amount carried by KTF. In this regard, the savings in income taxes in 2002 came to about KRW53.1 billion. Furthermore, one time tax deduction for R&D investment occurring from the year 2000 to 2001 brought about another KRW52.6 billion's tax savings. This tax deduction was calculated based on the limit of 13% in actual tax rate according to the minimum tax regulation.

## Financial Review

## Summarized Balance Sheets

In millions of Korean won

	2002 (As of Dec. 31)	2001 (As of Dec. 31)	2000 (As of Dec. 31)
<b>Current Assets</b>	1,315,196	1,547,239	736,206
(1)Quick Assets	1,170,787	1,489,080	679,088
(2)Inventories	144,409	58,159	57,118
<b>Non-Current Assets</b>	6,718,031	4,949,153	2,580,558
(1)Investment	2,049,759	632,002	345,738
(2)Tangible Assets	4,657,319	4,307,778	2,221,619
(3)Intangible Assets	10,953	9,373	13,201
(4)Deferred Assets	-	-	-
<b>Total Assets</b>	<b>8,033,227</b>	<b>6,496,392</b>	<b>3,316,764</b>
<b>Current Liabilities</b>	2,814,676	2,242,130	1,541,195
<b>Long-term Liabilities</b>	2,652,927	2,222,266	668,340
<b>Total Liabilities</b>	<b>5,467,603</b>	<b>4,464,396</b>	<b>2,209,535</b>
<b>Capital Stock</b>	920,290	920,290	713,314
<b>Capital Surpluse</b>	1,132,834	1,132,834	816,771
<b>Retained Earnings(Accumulated Deficit)</b>	542,644	10,481	(422,546)
<b>Capital Adjustment</b>	(30,144)	(31,609)	(309)
<b>Total Shareholders' Equity</b>	<b>2,565,624</b>	<b>2,031,996</b>	<b>1,107,229</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>8,033,227</b>	<b>6,496,392</b>	<b>3,316,764</b>

## Salient Points from the Balance Sheet

The total assets at the end of 2002 reached KRW8 trillion, up KRW1.5 trillion from KRW6.5 trillion at the end of 2001. This was mainly attributable to purchasing about KRW1.3 trillion worth of KTICOM's shares from the market and KT, in order to secure frequency resources necessary for long-term growth of the company.

## Investment Securities

During the year 2002, the company acquired 25.7% of the shares of common stock of KTICOM in a process of tender offer for a total of KRW468.2 billion. The company also purchased 46.6% of KTICOM's shares from KT for KRW849.1 billion. Investments accounted for using the equity method of accounting are as follows:

Company Name	Investment		Book value
	Ownership	Acquisition Cost	
KTICOM	87.27%	KRW 1.587 trillion	KRW 1.588 trillion
Korea Digital Satellite Broadcasting Co.,Ltd.	3.00%	KRW 10 billion	KRW 6.6 billion
KTF Technologies Co.,Ltd.	57.40%	KRW 2.4 billion	KRW 2.7 billion

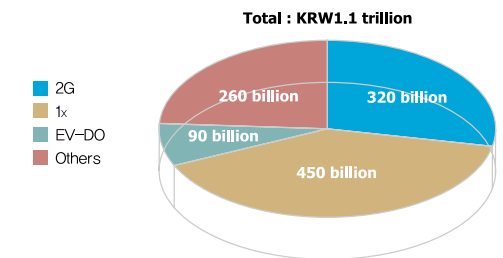


## Capital Adjustment

Total Shareholders' Equity increased to KRW2.57 trillion in 2002 from KRW2.03 trillion in 2001 by reflecting about KRW530 billion increase in retained earnings from net income.

## Investment in 2002

After the merger with KTM.com, the company continued to carry out frequency integration as well as network integration with an aim to efficiently use frequency resources and provide optimal services to customers. At the same time, the company made investments in new EV-DO services, and in securing 1x service subscribers. To this end, the company spent a total of KRW1.1 trillion. To be more specific, this includes investments in new business areas and varied systems and equipment such as, existing 2G network area (KRW320 billion), 1X area (KRW450 billion), and EV-DO area (KRW90 billion).



## Interest-bearing Debts

In order to procure the funds to acquire the shares of KTICOM, the company issued ABS, used retained cash, and ran into debt. As a result, total interest-bearing debts reached KRW3.94 trillion at the end of 2002, increasing from KRW3.49 trillion the previous year. The total amount of short-term borrowings and the current portion of long-term debt are about KRW1.32 trillion.





Voice Service

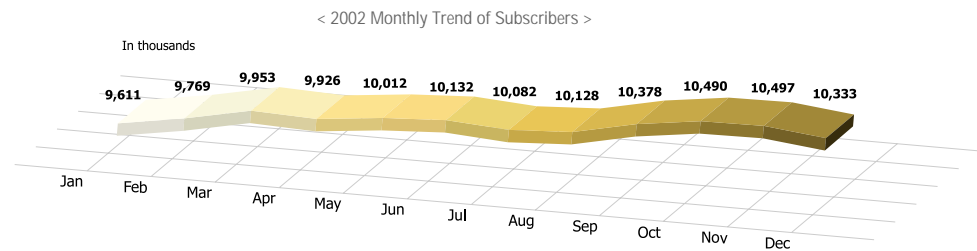
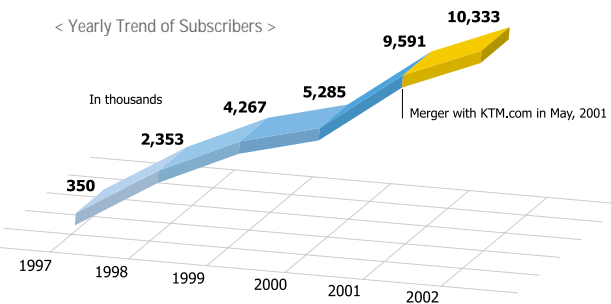
Reaching 10 million subscribers in the shortest time in the history of the industry resulted primarily from our innovative marketing strategies.

This achievement largely came because we provided unique services specifically tailored to meet our customer's demands in conjunction with marketing efforts that accurately grasped these customers tastes and needs. KTF diligently develops and upgrades the quality of voice service by providing a variety of value-added services. Due to these efforts, PCS keeps expanding its function as an entertainment medium that reaches far beyond mere communication.

The Growth of Subscribers - Innovative Marketing, and Merger Synergy Effects

KTF was founded in January of 1997 as a corporate entity with the name 'Korea Telecom Freetel Co., Ltd'. By October 1998, the company had realized the world's fastest growth by acquiring the most subscribers in the shortest time. This was recorded in the Guinness Book of Records in April 2000. KTF is continuing to grow as one of the world best mobile communication service providers. In May of 2001, KTF executed the merger with one of the competitor named Hansol M.com, and established a firmer competitive position in the market.

Due to these continuous innovative and aggressive marketing strategies, by the end of 2002 we had reached 10.334 million subscribers, and laid the groundwork for generating stable revenue and strengthening growth foundation. In particular, our young and innovative company image, combined with marketing approaches that captured the heart of the younger generation, helped us acquire a large number of younger generation subscribers. We will keep focusing on the younger generation and on the mature generation over 50 which have the highest potential market growth. This calls for the diversifying of our marketing strategies. In addition, we will keep marching forward into new business areas and applications in order to produce continued rapid growth in subscriber numbers.



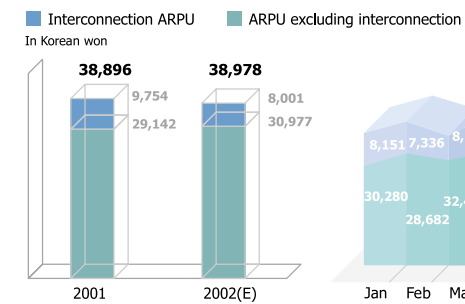
The Growth of ARPU & MOU - Growth in wireless data service and a rich variety of value-added services

1. Solid Growth of ARPU (Average Revenue per User)

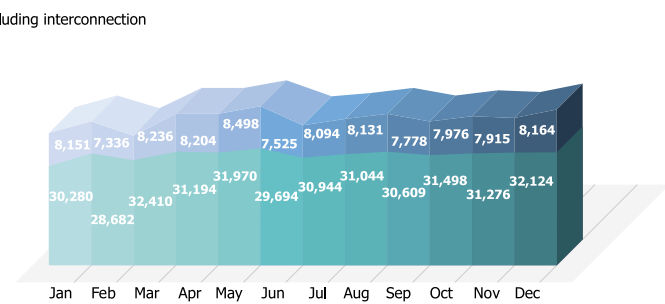
KTF has realized firm growth in ARPU and the numbers of new subscribers at the same time. In spite of the unfavorable factor of reducing service use fees in 2002, ARPU has consistently increased. The strong growth of ARPU has resulted from the excellent wireless data service along with rich voice and data type value-added services. Our growth of ARPU has been established simultaneously in both voice and wireless data sections. This is unusual, and unlike other general examples in overseas companies. This status of ARPU growth is an encouraging result from our business strategic direction, and it has also proven to us that voice marketing and sales is still a very important cashcow. In the overall growth trend, the growth rate of data ARPU surpasses that of voice ARPU. This gives a clear direction to put more focus and effort into the wireless data section. In particular, to maintain continued strong growth of ARPU, we will constantly make every effort to develop and provide a wide range of wireless data content as well as voice type value-added services.



< Yearly ARPU Trend >



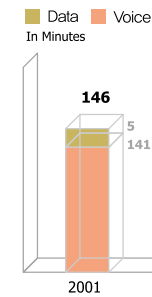
< 2002 ARPU Trend per Month >



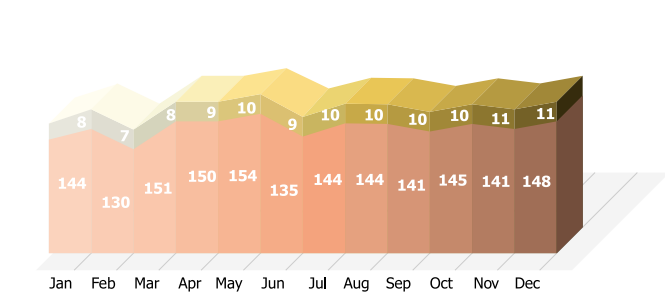
2. Constant Increase in Outgoing MOU (Minute of Usage)

Every year the MOU for outgoing calls has increased due to several important factors such as, the huge increase in volume of voice calls owing to cutting tariff, activating a rich variety of voice related value-added services, and the increasing rate of use in wireless data service. In addition, the MOU will keep increasing in accordance with higher data use caused by the ever richer varieties of multimedia content being introduced.

< Yearly Outgoing MOU Trend >



< 2002 Outgoing MOU Trend per Month >



3. Developing a Variety of value-added Services - diversification of revenue source

1) 2Ring Service : It is a call connection sounds service that embraces RING2YOU and RING2ME launched in 2002. Thanks to the popularity of this service, 1.13 million subscribers were using it as of the end of 2002, which was only four months after the service started.

Service Use Rate

		RING2YOU	RING2ME
Monthly Flat Rate		900 won	600 won
Sound Change	Through magic <sup>□</sup>	700 won/one time use	· Theme Box: 1,500 won monthly flat rate · Music Box: 700 won / one time use
	Through ARS	100 won /30 seconds + call charge	· Theme Box: 1,500 won monthly flat rate + call charge · Music Box: 10 won / 30 seconds + call charge

2) Catchcall Service : Catchcall Service notifies you of the phone number of incoming calls with SMS, while you are not available to answer or your phone is in the off mode. As of the end of 2002, the number of subscribers was over 900 thousand. The monthly flat rate is KRW1,000 (KRW500 for the users of caller ID service). This service is a new additional source of value-added service sales.

Voice Service

3) Other Value-added Services

Service	Use Rate	Service Content	
<b>Caller ID related</b>	Caller ID service	2,000 won per month	Caller's phone numbers will be displayed on call receiver's mobile phone screen.
<b>For convenient calls</b>	Automatic Connection Service	700 won per month	Incoming call is automatically connect to designated phones when customers cannot receive calls.
	Incoming Call Transferring Service	700 won per month	Incoming call is automatically connect to designated phones.
<b>Information Service</b>	Customized SMS service	2,000 won per month	Real-time information like stock, news, etc are transmitted in a written message form.
	Teen-Teen Channel Service	800 won per month	ARS service and customized written message information service for exclusive use of teenagers.
	E-Stock Service	30 won per one time use	Stock related information is transmitted in a written message and paging without access to magic
<b>Special Function Service</b>	Two-Number Service	3,000 won per month	Registering up to 3 exclusive incoming call numbers to one mobile phone.
	2004 Service	700 won per month	With pressing '2004', phone call is made to specific numbers.
	Changing Phone Number Guide Service	3,000 won per month	Changed phone numbers is informed and connected to changed phone numbers.
	Safeguard Angel 1575 Service	30 won per one time use	magic Safeguard Angel Service(Location-Based Service) is provided through ARS.
	Designated Number Discount Service	2,000 won per month	Rate discounting service on 3 phone numbers designated by customers.
	080 Collect Call Service	2,000 won per month	Call receivers pay for the service rate.
<b>Written Message Service</b>	Message Manager Service	800 won per month	SMS Integration Management Service (Free of 40 SMS transmissions and storing 1000 SMS.)
	Paging Service	30 won per one time use	Paging function and instant call connection.
	International SMS Transmission Service	150 won per one time use	Transmit SMS to overseas. (only in English)
	<b>Global Service</b>	Automatic Roaming Service	2,000 won per day
	Rental Roaming Service	2,000won per day	Handset rental service in customers' visiting countries (available in Automatic Roaming service-enabled countries and Japan).



**Brand Marketing Strategies** - The first and most innovative 'Segmented Marketing' in the industry

The most unique and outstanding marketing strategy of KTF is Brand Marketing. It is completely specialized segment marketing that considers all details and influential factors affecting each segment in a group. Our extraordinary marketing strategy is not like our competitors' marketing strategies that are simply differentiated by groupings of sex or age. This allows us to maintain a continuing leadership position in the market with an ever-increasing growth rate in new subscribers and a decrease of churn rate. The following are unique and outstanding characteristics of each Brand:

**Na**

When you meet Na, a whole new world opens wide for you!

The world of the younger generation is completely filled with each mosaic piece with its own individual shape, color and uniqueness and the generation is filled with endless power and the potential to lead our society and culture. 'Na' is a total entertainment service designed to furnish a richly fulfilling life to the younger generation. It is a specially designed service that combines mobile communication with all kinds of cultural activities. 'Na' contains bountiful exciting contents, and these are some examples of its service: Free movie viewing at 25 movie theaters nationwide every Friday, discount benefits at 700 affiliated stores nationwide for each business section, internet connection service at 68 universities nationwide, recharging handset device services, and providing a total entertainment space called 'Nazit' in 12 major commercial areas nationwide.

**Main**

Life entirely filled with passion and love!

'Main' lets you fulfill your fondest desires and fill your life with excitement. 'Main' is a service specially designed for the 25 to 35 generation that is the mainstream of our society. 'Main' offers very economical and practical rate plans you can choose according to each customer's call pattern. It is filled with rich cultural events, and additional services such as special benefits at movies, auto clinics, leisure, travel, and many others.

**DRAMA**

The privilege of being female.

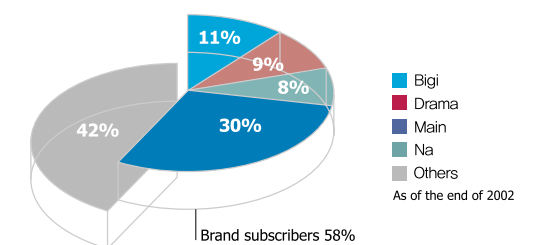
Enjoying the mystic beauty, grace, and happiness of being a woman. 'DRAMA' is exactly the right service for women who want to enjoy a life filled with happiness and confidence. This serves women by continually upgrading the quality of their life while increasing their fun and happiness. It is a total life culture service that enriches every part of women's life. Understanding and touching the deep emotions and needs of women, 'DRAMA' provides many wonderful services and benefits. It is filled with valuable offline contents such as Book Cafe, Internet PC Zone, Make-up Zone, and exclusive women's cultural area of 'Drama House'. This service also operates 'Drama Kids' which offers practical help in caring for, and entertaining the children of customers. 'DRAMA' allows women to be more unique, beautiful, and happy.

**Bigi**

The unique privilege of being a 13 to 18 year old!  
They are served content separated from that of adults!

Bigi is a specially designed service for teenagers. It is carefully packaged to consider the potential growth power of the teenager market, and their value as 'Life Time Customers'. KTF fully recognized the teenagers' unique communication culture, and created 'Bigi' that allows regulation of the proportions of voice and SMS for the first time in mobile communication industry. 'Bigi' contains sensible contents for teenagers, and a unique flat rate system that lets customers choose and adjust their own rate plan. 'Bigi Kiri Rate Plan' which allows free SMS communication between Bigi peers. There are varied funs and educational services, including discount benefits at many amusement parks, internet education sites, and movie theaters.

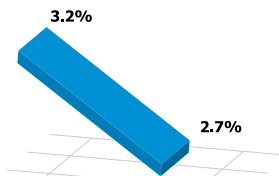
< The Percentage of Subscription per Brand >



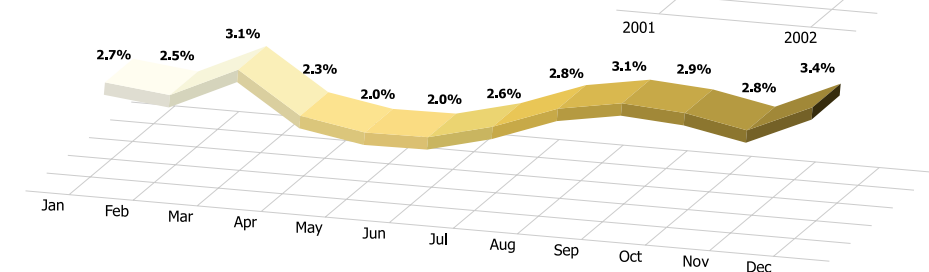
**Decrease of Churn Rate - Maximizing customer satisfaction**

The churn rate decreased markedly compared to last year as a result of a constant determined effort to fulfill the customers' needs and satisfaction through network quality improvement, strengthening the customer service, and more effective brand marketing activities.

< The Trend of churn rate per Year >



< 2002 Trend of churn rate per Month >





Wireless Data Service

# KTF also leads in wireless multimedia service

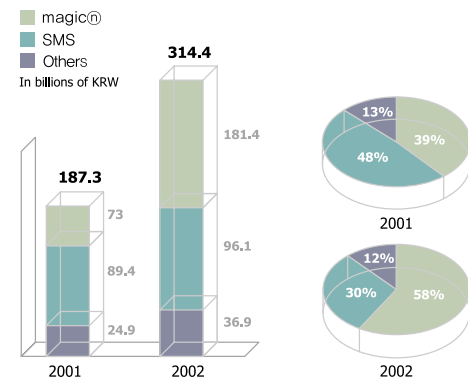
KTF's wireless multimedia service offers a total solution for your life needs in shopping, financial transactions, games, and community activities. It goes far beyond sending and receiving mail. Currently, our multimedia service with its rich variety of contents and brilliant ideas, keeps rapidly expanding its service area beyond simply being connected to the internet. We at KTF will keep striving to bring a new dream world into reality in your life.



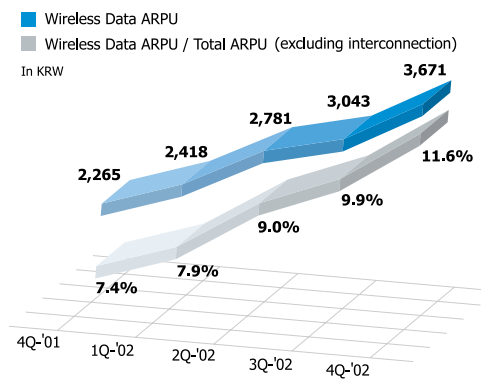
### Wireless Data Service as the central growth engine of revenues

Wireless data sales increased 68% over the last year, reaching KRW314.4 billion in 2002. When we look at the detail of the growth in wireless data, the proportion of SMS revenue decreased from 48% in 2001 to 30% in 2002, and the sales of magic increased significantly due to the growing demand and usage volume for wireless data contents. This analysis of sales growth in wireless data is quite encouraging that it was accomplished due to both quantity and quality improvements. The portion of wireless data ARPU (excluding free allowance) to total ARPU (excluding interconnection revenue) increased to 12% in the fourth quarter of 2002. It also shows that wireless data is becoming a significant factor in increasing the sales of KTF's overall businesses.

< Current Status of Wireless Data Service Sales and Sales Portion per Service >



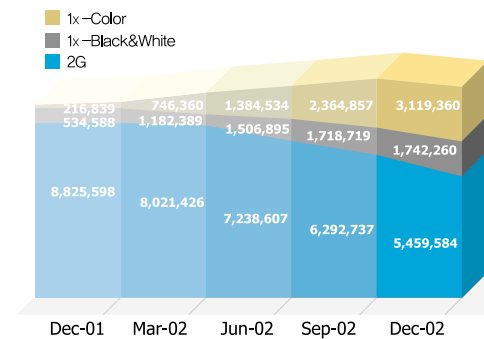
< Wireless Data ARPU >



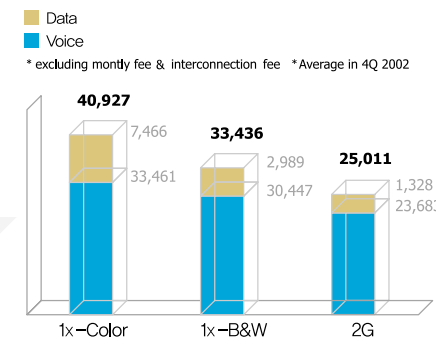
### Expanding Penetration of 1x Service and Color Handsets

The primary source of the fast growth in wireless data sales is the increasing firm base of 1x service subscribers caused by the strong distribution of color handsets. KTF's distribution rate of color handsets was 30% at the end of 2002. This was the highest rate in the industry. The number of color handset holders at the end of 2002 was 3.12 million. This was 14 times greater than the 220 thousand at the end of the year 2001. In addition, the number of 1x subscribers reached 4.86 million. As shown in the graph, the sales generated by 1x color handset subscribers are much higher than those of 2G or black & white handsets. This clearly shows that continued growth of subscribers holding color handsets will be the critical factor in the overall wireless data sales increases. With this in mind, we at KTF are putting forth our best efforts to maintain a true leadership position in the wireless data market by developing and offering better services.

< No. of 1x Subscribers per Handsets >



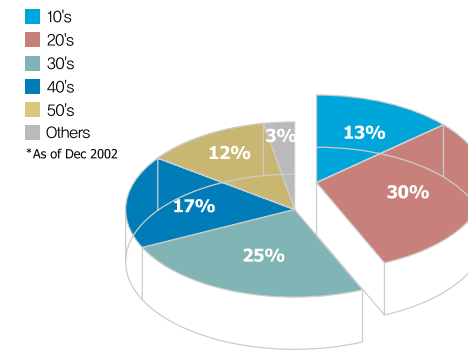
< 1x ARPU per Handsets >



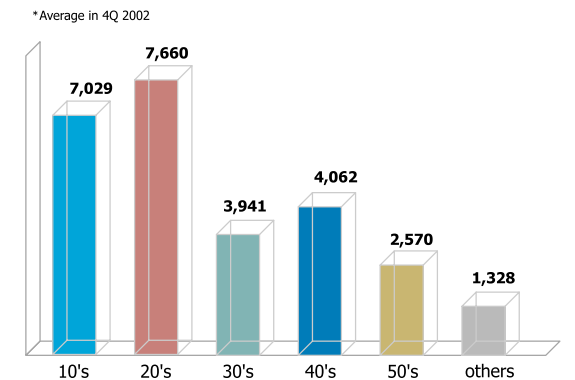
### Acquiring Younger Generation Subscribers

The second factor in the growth of the wireless data ARPU can be a constant introduction of new services and younger generation subscriber base, who are actively involved in using wireless data services. The wireless data ARPU created by subscribers in the younger generation is significantly higher than the other generations of subscriber. The rate of contribution to the overall ARPU by the younger generation is also about twice as high as that in other generations of subscribers. Our rate of 43% (52% in 1x) of younger generation customers (teenagers and subscribers in their twenties) is far higher than that of other competing providers. This valuable factor is one of our strong assets and creates bright business prospects for us. KTF is making every effort to accommodate younger generation subscribers, by offering more individualized and fully satisfying products and services.

< Subscribers per Age >



< Data ARPU per Age >



### Development of a Wide Range of Competitive Services

KTF's wireless data services are far superior to the services from other mobile communication service providers in both quality and variety. This is the source of our strong foundation and competitive position in the industry. Here are some examples of our superb services: 'Multimedia Message Service' allows customers to send and receive their combined messages of photos, streaming video images, and more than 1,000 words. It is an outstanding service that is far advanced over the ones that only enabled transmission of simple SMS a short time ago. 'Multimedia Streaming Video Image Service' lets customers enjoy watching TV, movies, music videos, and sporting events, in real-time. 'M-Commerce' lets users conveniently make many kinds of financial transactions from shopping, and mobile phone credit card transactions to wireless internet banking. We avoid the common ordinary services, and keep developing new advanced services that meet our customers' varied needs.





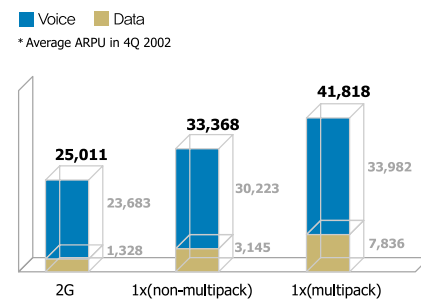
**['magic multipack' swiftly takes you into a world filled with excitement |**

'magic multipack' service is a color multimedia service of downloading type provided by magic . It is the user-friendly graphic-based service that provides Brew platform- installed icon method interface.

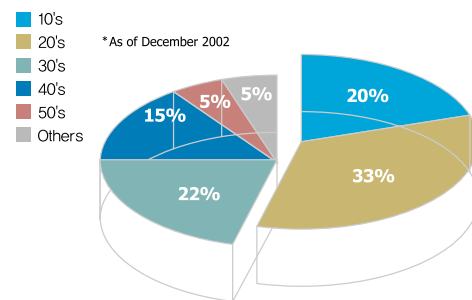
**Number of Subscribers and ARPU**

The growth in the number of multipack-installed handset holding subscribers has vastly increased from 110 thousand in December 2001, to 2.92 million in December 2002. The ARPU of multipack' subscribers is 25% higher than the ARPU of non-multipack 1x service subscribers, and more than 67% higher than the ARPU of 2G handset holding subscribers. In particular, data ARPU of multipack subscribers is remarkably higher than that of non-multipack and 2G handset subscribers, 149% and 490% respectively, so it has become the major part of the growth in wireless data service sales. 53% of the subscribers to magic multipack are in the age group from teenagers to subscribers in their twenties. This high rate of young generation users is a strong asset that demonstrates the bright potential for even faster growth in our wireless data service.

< multipack ARPU >



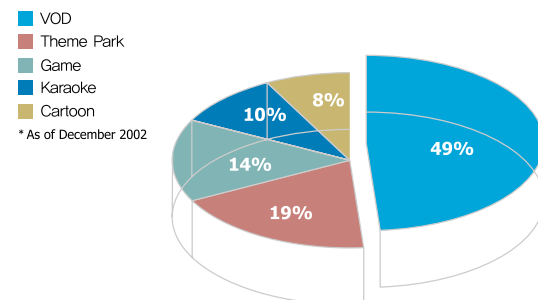
< multipack Subscribers per Age >



**Contents**

Theme Park (ring-tone and character downloading application) produced the largest packet volume until September 2002. However, in October 2002, VOD (Video On Demand) service became a major revenue producer and gained first place while reaching a packet volume of 49% of the top 10 applications in December 2002. Even though multipack VOD service is still S/W based VOD, it still maintains its great popularity. In case that H/W based VOD from fimm becomes popular due to its far superior quality of both network and terminal, it will contribute greatly toward increasing the growth in wireless data revenue through great usage of packets.

< Top10 multipack Contents >



**| KTF IMT2000, Surprise 'fimm' |**

KTF proudly presents the revolutionary innovative service 'IMT2000 fimm', a new concept in high-speed multimedia mobile communication service. fimm gives you total convenience and freedom to enjoy a vast array of excellent services, such as transmitting voice, data, streaming video images, real-time TV viewing, and video phone communication. You are able to enjoy all of these functions along with an extremely high quality of voice communication.

**Contents**

**VOD Service**

It brings customers an amazing viewing of streaming video images like TV, movies, music videos, and sports events, among others, through the graphic channel.

**Available Channels**

Channel Name	Description
Seo Tae Ji Channel	Offers Seo Tae Ji streaming video content that customers can enjoy only through fimm
Special Channel	Provides special streaming video image of several pop singers
TV Channel	Offers real-time TV broadcasting
Music Channel	Provides music and music video
Movie Channel	A streaming video clip channel that offers the latest movies, popular video, etc.
Sports Channel	Furnishes such contents as sports, documentary, travel, leisure, etc.
Entertainment Channel	Customers can broadcast streaming video clips that they produce themselves.
Adult Channel	Offers contents only for adults
Bell & Screen Channel	Customers can use a variety of streaming video contents stored in their mobile phone for their bell sound and handset background screen

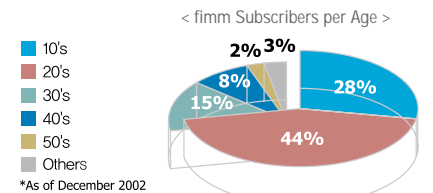
**Multi-messaging Service**

This service allows customers to transmit a wide range of attached multimedia data via mobile phone or e-mail. The data includes long text (1,000 words), photos, pictures, music, streaming video, etc.

**Subscribers**

fimm service which had 100 thousand (1x: 61 thousand, EV-DO: 39 thousand) subscribers as of December 2002, was re-launched by focusing on VOD and MMS in February 2003. Through our extensive relocating efforts to the service, the number of fimm service subscribers increased to 226 thousand (1x: 170 thousand, EV-DO: 56 thousand) as of the end of February 2003.

This growing number of subscribers is expected to further increase with an abundance of EV-DO handsets in the year 2003. Concerning age brackets of fimm subscribers, around 72% of the subscribers consist of teenagers and twenties. This is significantly higher than the 53% in this age group among the multipack subscribers. This data shows that high-end services are more popular with the younger customers. It is one of the strong points that are aiding KTF's potential for rapidly increasing growth in wireless data area.



**Exclusive fimm Rate Plan**

An exclusive fimm price plan has been designed for the purpose of activating VOD services.

Plan Name	Flat Rate (Won)	Packet Volume	Packet Price (Won)	VOD (When exceeding the limit of free packets)	
				Additional Discount Rate	Packet Price (Won)
fimm 45	4,500	11,000	0.41	30%	0.9
fimm 87	8,700	26,000	0.33	50%	0.7
fimm 140	14,000	51,000	0.27	70%	0.4
fimm 240	24,000	124,000	0.19	80%	0.3
fimm 490	49,000	520,000	0.09	90%	0.1

\* When exceeding the limit of free packets: magic - 6.5 Won per packet, multipack - 2.5 Won per packet  
 \* When using fimm service without subscribing to fimm rate plan : 1.3 Won per packet (VOD)





| 'K •merce' - The best choice to bring the most effective and convenient economic activities into your life |

In 2002, KTF made a full-scale launch of 'K •merce' along with the total multi-media services such as 'multipack' and 'fimm'. This revolutionary service named 'K •merce' was the Korea's first wired and wireless integrated service brand enabling e-transactions. K •merce as a next generation service has already caused big changes in the wireless data market, and it will bring customers a better economic life without limits of time and space. Through this service, simply using their mobile handsets, they can conduct almost any kind of financial e-transaction. This includes such things as wireless credit card transactions, wireless internet banking, shopping, and getting discount coupons and reservations. 'K •merce' brings total convenience, speed and security into your financial life.

#### M-Finance

**Stock** : Providing current prices of stocks, chart, information analysis, etc.

**Banking** : Conducting banking like balance inquiry, money transfer, etc. by forming affiliation with 21 domestic banks

#### M-Payment

**e-Wallet** : Enables the e-Commerce via secure and convenient wired and wireless internet based on previously-registered payment information

**Mobile Payment** : Allows on/off-line payment by combining transportation fair payment card and credit card to mobile phone

#### Marketplace

**Lottery** : Wired and wireless combined e-Lottery service

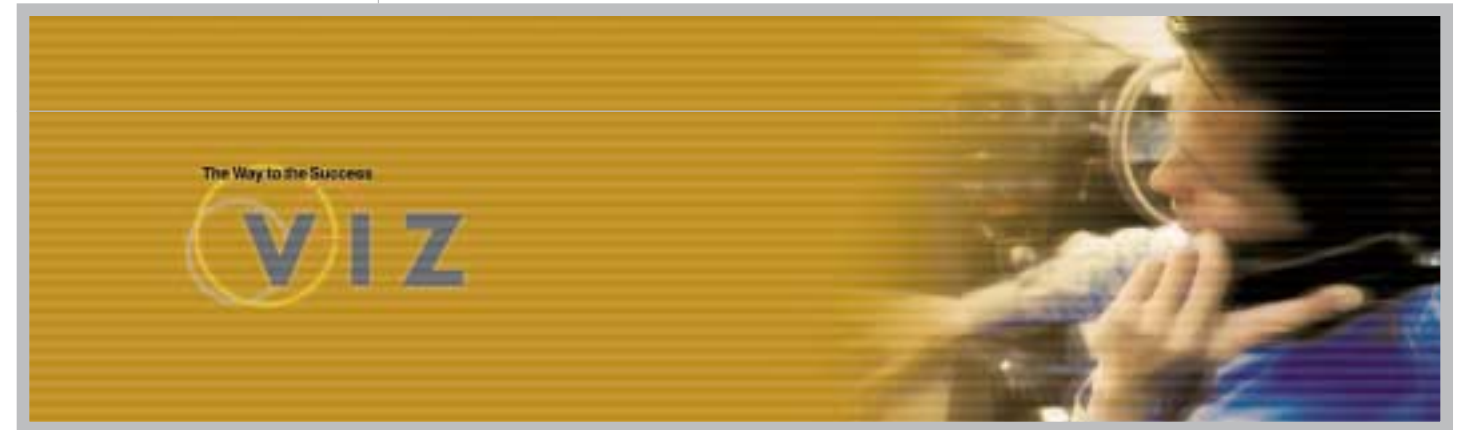
**Reservation** : Provides reservation service for movies, performance, and travel more conveniently and economically

**Shopping** : New concept of shopping service without limits of time or space (Wired and wireless integrated shopping mall)

#### M-AD

**Coupon** : Customers get discount benefits when they purchase tickets and goods with mobile barcode coupon downloaded from mobile phone

**Merchandise Coupon** : Customers can purchase goods with merchandise coupon in their mobile handsets and make a gift to others



| 'VIZ'- A business solution for leading-edge companies |

KTF's VIZ is a service exclusively designed to help corporate clients keep accumulating strength and value in every area of their businesses. It provides advanced technology and solutions tailored to their needs.

#### ASP Service

ASP Service contributes to many strategic aspects of customers' business operation by enhancing productivity, management effectiveness, and reducing expenses. Through a wireless data network system, ASP supports the fastest and most accurate and effective functions in their business operation. Some examples of its service applications are 'Mobile Office' that provides the amenities of your business office while you are on the move. It provides a most advanced location information service called 'Mobile Track' and a remote wireless control service called 'Wireless Telemetry'.

#### LBS Service

LBS service provides all kinds of useful location-based information through the mobile phone, PDA, or other devices in the wired and wireless mobile communication environment.

#### Telematics Service

This is an advanced service for the exclusive use of automobiles. The service furnishes many valuable services such as vehicle location information, traffic information, vehicle condition and safety information, as well as entertainment services by linking the technology of wireless communication to a GPS system.

#### Safe Card Service

For the safety of credit card transaction, Safe Card service protects customers against illegal use of their credit card. KTF approves the transaction procedure only after confirming that the location information matches both that of the subscriber and the shops where the transaction occurs. If the location information does not match, the company asks for identity verification to assure the legitimacy of the transaction.

#### Zone Service

This service offers huge savings in communication expenses, and greatly increases business effectiveness, by linking a companies' internal wireless phones and air network services through a CDMA terminal within a building.

#### Board Service

This service lets customers advertise effectively by exhibiting, in real time, short appealing advertising messages on the wireless screen through SMS.

#### Wireless Modem Card Service

Customers can use data communication by simply inserting a wireless modem card into the notebook computer's PCMCIA slot that links to the internet through the KTF network.

#### Messenger Service

This service allows customers to transmit a large quantity of short messages to a large number of people on a phone-to-phone basis by using a CDMA module-installed special terminals and PCS.

#### Check Service

This service was developed in a cooperative effort with the VAN. This solution rapidly and conveniently performs all kinds of verifications and approvals for credit card transactions by using a CDMA module-installed wireless credit card reading device.



We promise the most delicate and considerate customer service that reads the individual heart of each of our customer.

Our customer service doesn't just solve the customers' dissatisfactions or complaints. Our concept of customer service is to adopt their point of view while we work, not only to solve any problem, but to also work toward increasing the overall benefits from being our life partners in this exciting communication era. We at KTF open our ears, eyes, hearts and arms, to fulfill our customers needs and desires. We do this by using all of the channels for direct connection with our customers that will help us provide superb individualized services. KTF will continue to strive to bring quality products and services that completely fit the needs and desires of our customers.

#### To Connect the Customer

Members Center: There are 5 professional Tele-marketing center located nationwide.

Web-Call Center (www.ktfmembers.com): Customers can directly access the rich variety of services and other functions in real-time by going to the website shown above.

Member Shops: There are 600 strategic CS sales agencies nationwide.

Members Plaza: There are 51 Branch Offices in main commercial areas nationwide.

Entertainment Space: We operate Nazit and Drama House to satisfy the customers' diverse needs and desire.

#### To Listen to the Customers' Voices

VOC (Voice of Customer) System: This system automatically and instantly connects customers to the proper department within the company so they can express opinions including customers' inconvenience or dissatisfaction. Each department is then able to respond on an immediate basis and take remedial action.

#### To Give More Benefits

KTF Members Card: With this card, the customer can get up to a maximum 50% discount at affiliated stores.

KTF Call Bonus Program: The Call Bonus program awards one point per each 100 won of service use fees, and accumulates these points that can then be used to purchase new handsets, or get other benefits of their choices.

Angel Consulting Service: An exclusive consulting service for high quality customers

Thank-You Phone System: This provides free phone rental service to customers who lose their mobile phones.

Visiting Service: A representative of company personally visits the customer to provide A/S services.

Discount Service on Special Anniversary: We give a 50% discount on local calls on two special days that the customer chooses.

Discount Service for Long Term Customers: This provides a special additional discount of 15% to more than three-year customers, a 10% discount to two-year customers, and a 5% discount to customers for one year.

#### To Provide More Detailed Service

CRM (Customer Relationship Management): KTF first carefully researches specific customers needs and desires through Company's database and target marketing, then designs individually tailored services that precisely fill customers' needs. KTF is also continually developing specialized products and services to keep a leading role in this rapidly changing communication market environment.

#### Receiving the Grand Prize for Customer Satisfaction

For the happiness of our valuable customers, we constantly strive to create better CS infrastructure and functions. We completely divided the branch offices into two major sections of sales and CS. We also re-designed all of our operation environments and steered the attitude of our working personnel to a customer-oriented focus. Customer satisfaction is the most emphasized criterion in our assessment of an employees motivation. In addition, the Customer Center in metropolitan area is equipped with the most advanced and comfortable facilities with the capacity to handle an average of 150 thousand calls per day. The auditorium, educational centers, restaurant, and cafeteria are designed to create better services for our customers. These efforts bore fruit when our loyal customers awarded us the Grand Prize for Customer Satisfaction.

#### Obtaining AAA Certification in Service Quality from the Korea Management Association Consulting

This certification systematically evaluates each company's service content, activities, facilities and general qualities, and issues its grades according to reliable criteria. KTF's Members Center in Metropolitan area was awarded the top level of AAA grade that is equivalent to the world's best service quality level.

“

I think a true friend is one who always gives encouragement and can share the joys of life. The really good friend gives help when I am in a difficult situation. KTF and its service are my real friends. A short time ago when I lost my mobile phone, I contacted KTF's Customer Center, and right away, I could get a free rental phone until I found my lost friend. The other day my mobile phone got out of order, and I again contacted the Customer Center. Immediately, an A/S person visited my office and fixed it personally. Now I feel very safe and close to KTF. I learned that KTF is an even more faithful friend than I thought. KTF is always there with me as a real friend and partner.

Yoon Jung Byun | KTF Customer

”







## KTF's mentality is leading the way in the new paradigm of the digital era.

KTF constantly makes a concentrated effort to create a corporate culture that takes us from the present status and ordinary practices, and leads us to explore new horizons in undeveloped fields of business. We keep nurturing a challenging spirit in our employees that rid them of an old conventional thought and encourage them to march forward into the new realm of the digital era. KTF respects and gives ample rewards for its employees' talents, abilities, and efforts. This motivates them to keep increasing their creativeness and maintaining a high spirit of challenge.

### KTF's Three Core Values: Service Spirit, Frontier Spirit, and Partner Spirit

With the Spirit of Service, we conduct all of our business activities in a complete customer-centered direction. Our Frontier Spirit leads us to continually renovate old ways of thinking and keep meeting challenges as we create a brave new world. In the Partner Spirit, each member of KTF maintains a trusting and helpful relationship with fellow workers and our customers. We are constantly aware that we are all together as partners in our endeavors.

### Campaign of Nurturing Innovative Thoughts

To implant the core values of the company in the members of the corporation, we continue to conduct innovative activities as a first step.

**KIDS:** Every Wednesday our employees come to work wearing casual outfits an hour earlier than usual and leave at 5 p.m. so that they can spend time with family or devote the spare time to self-development. We also conduct 'Core Time' which is deeply focused on the quality of business, and 'Clean Time' that creates more productivity through the organization and tidying of the working environment.

**TRUST:** All members participate in 'Hearing Voice of the Leaders' from our internal broadcasting program about the current business trends, useful management strategies, experiences, philosophy, etc. We also carry out the program 'All of us are CEO' to share in our company information and get information about competitive companies through our intra network system.

**FUN:** To create a fun and enjoyable working environment in the company, each member actively participates in 'Our Jamteo' for theme activities, and 'KTF's Jamteo' supported by company for leisure and sports activities.

### Heart Board

'Heart Board' is a discussion group that is composed of younger and more passionate employees who meet with the president of KTF to talk and share ideas and opinions. The company strives to form innovative organization culture by providing its members with overseas study and training programs to learn and benchmark world-prominent companies.

### Awarded Honor of First Prize in 2002 in the Category of 'New Culture of Labor and Management'

KTF's human resources management is constantly bringing innovative ideas and strong connections into the Labor and Management relationship. These positive and unified efforts by KTF's members earned the honor of being awarded Grand Prize by the Ministry of Labor in the 2002 New Culture of Labor and Management category. KTF's 'Optional Welfare System', which lets the employees themselves personally choose their own welfare items, also got rated highly.



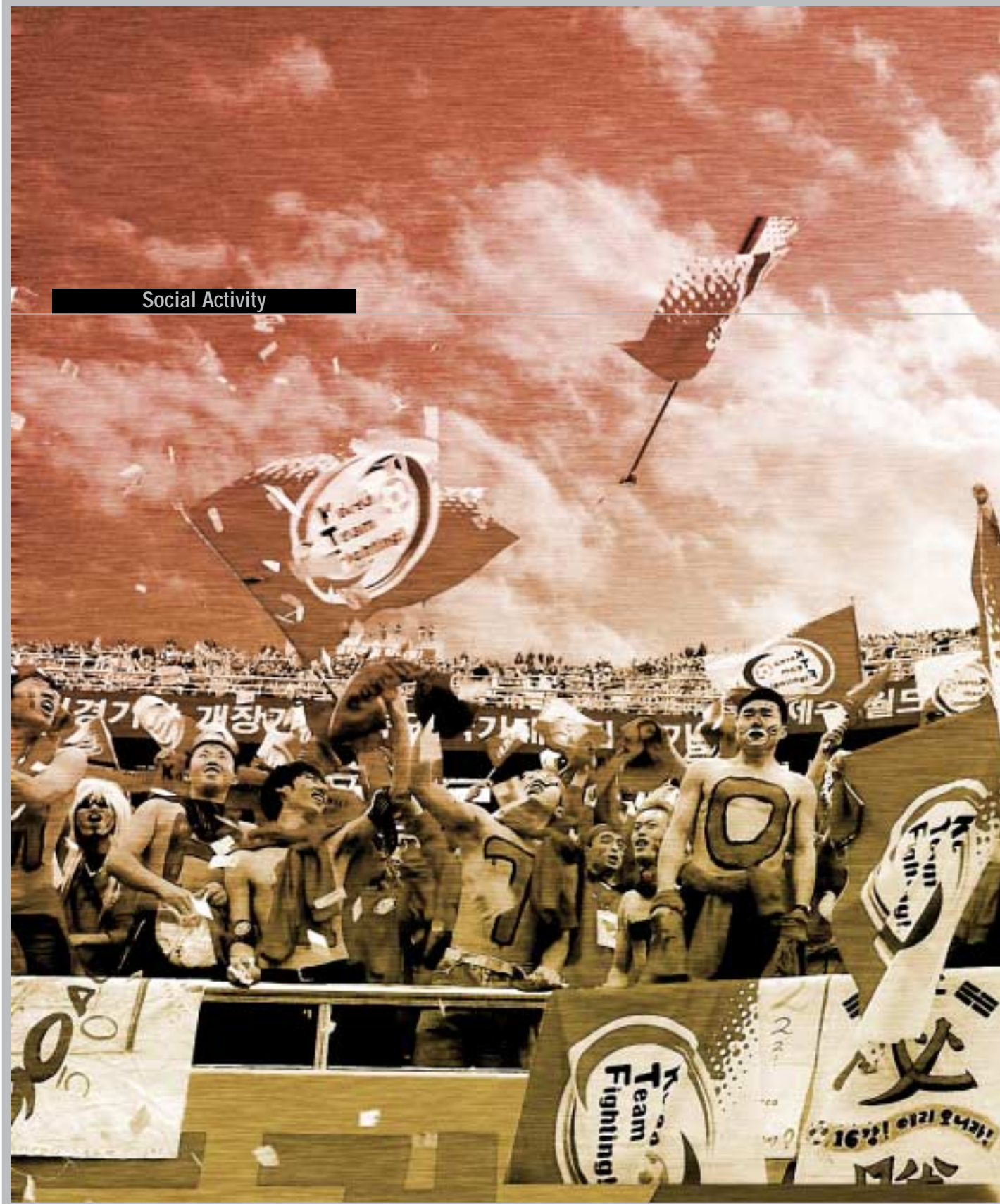
“

People who have creative minds and high spirits of challenge! They are independent thinkers, self-starters, and risk takers. I am very proud that I am one of them. I also trust and follow the company's philosophy that says 'The first and most valuable KTF asset is talented manpower'. I have learned much, and grown up a lot, since I started work here. I keep opening my mind and heart to the partnership philosophy and caring spirit of KTF and wanting to share in its efforts to aid the common welfare.

”

Dong Kyoon Kim | Junior in Covergence Planning Team





Social Activity

KTF understands well and actively participates in the virtue of sharing. From caring for less fortunate neighbors to becoming an official sponsor of the 2002 World Cup, we keep planting hopes and dreams in the community.

Our social welfare contributions are not just from our sense of moral responsibility. We realize that powerful social participation is a practical investment in a brighter future for everyone. KTF actively practices social participation through efficient systematic methods, and various cooperative channels. To help fulfill these ends, KTF and its employees formed 'Dream Creators' as a social contribution organization for serving society.

#### KTF as a 2002 World Cup Official Sponsor

KTF was in the midst of the unforgettable world festival of the '2002 World Cup' that successfully connected the whole world as one community. The company also implemented 'Korea Team Fighting' campaign to support Korea Team. This made a huge contribution toward the popularity of the national soccer sport. During the entire time of the 2002 World Cup Festival, we presented our space-age technology and CDMA 2000 1x EV-DO service to the whole world, and strongly captured worldwide attention and approval. Successfully supporting World Cup events, and drawing the world's attention to KTF's outstanding technology, brought us one step closer to stand tall on the world stage.

#### Supporting the Professional Golf

KTF sponsors Mi Hyun Kim who is one of the top female golfers in the world. We also sponsor national outstanding players Sung Yoon Kim and Joo Yeon Kim. The company also holds the second part of the KPGA Tour to open the door for talented golfers and promote Korean golf to the whole world.

#### Operating Cyber Sports Teams

To promote a healthy and decent e-Game culture for youngsters, KTF supports cyber game sports. We operate 'KTF magicsn' which contains the best professional gamers. KTF endeavors to activate and popularize cyber sports by sponsoring the Korea's most prestigious cyber sports competition 'Starcraft 4 Big Stars for KTF Prize'.

#### People Who Make Dream Come True

To conduct more effective and systematic social welfare activities, KTF formed its voluntary social contribution group named 'Dream Creators' to reach out to our less fortunate neighbors. 'Dream Creators' especially focuses on needy youngsters to promote a bright future and quality life for them by providing varied types of practical help, and improving their education. This group is wide open for participation by KTF customers who have a willingness and desire to create a better society.

#### KTF GREEN Campaign

KTF actively carries out 'KTF GREEN Campaign' both on and off line. To spread the Joy of Sharing, we frequently holds a variety of activities for social contribution. These include 'Summer Class for Undernourished Children', 'Sharing Meals of Love', 'Helping Orphaned Teenagers who Support Their Siblings', and 'Collection of Love Coins', etc. Through a vast array of social participation programs, the company keeps striving to help unfortunate youngsters to become productive and successful members of society.





# We Create the Value

Trust is gained from clarity and transparency, and accomplishment comes from taking the right path. KTF strives to achieve the management goal of 'Maximizing Value for Shareholders' through operations that emphasize sound cash flow and exhibit clear management. To illustrate this point, it is the company's practice to open its transparent financial records and fair financial management. This openness and fairness ultimately produces the positive result of increasing company value. We are now introducing you to the company that has the most potential, and brightest prospects for the future, in the global mobile communication industry.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

English Translation of a Report Originally Issued in Korea

To the Shareholders and Board of Directors of  
KT Freetel Co., Ltd.:

We have audited the accompanying non-consolidated balance sheets of KT Freetel Co., Ltd. (the "Company") as of December 31, 2002 and 2001, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of KT ICOM Co., Ltd. ("KT ICOM") and KTF Technologies Co., Ltd. as of and for the year ended December 31, 2002. These companies are 87.3 percent and 57.4 percent owned, respectively, by the Company as of December 31, 2002. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for KT ICOM and KTF Technologies Co., Ltd. is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with financial accounting standards in the Republic of Korea.

The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As discussed in Note 5, on December 13, 2002, the Company acquired shares of KT ICOM from the following related parties: 700 thousand shares from KT Hitel, 300 thousand shares from KT Powertel and 46,585 thousand shares from KT Corporation all at ₩18,227 per share. The Company also acquired 24,685 shares of KT ICOM from a third party for the same price. For the acquisition of KT ICOM's shares from KT Corporation, the Company paid cash of ₩540,000 million and gave a note for ₩309,103 million, due in March 2003. The Company paid cash to the third party, KT Hitel and KT Powertel.

As discussed in Note 19, on January 28, 2003, the Board of Directors approved the merger with KT ICOM. The transaction is deemed to be a "small-scale merger" as defined in the Commercial Code of the Republic of Korea, which states that the total number of new shares to be issued by the acquiring company does not exceed 5 percent of the total issued shares of the acquiring company. In accordance with the Commercial Code of the Republic of Korea, the approval by the general shareholders of the Company may be replaced by the approval of the board of directors of the Company. The exchange ratio of common share between the Company and KT ICOM is 1 to 0.55636 and the merger is expected to be completed by March 1, 2003.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Anjin & Co.

Seoul, Korea  
January 29, 2003

This report is effective as of January 29, 2003, the auditors' report date. Certain subsequent events or circumstance may have occurred between the auditors' report date and the time the auditors' report is read. Such events and circumstance could significantly affect the accompanying financial statements and may result in modification to the auditors' report.



## NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2002 AND 2001

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2002	2001	2002	2001
	(In millions)		(In thousands)	
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents (Note 13)	₩ 22,660	₩ 52,362	\$ 19,101	\$ 44,139
Short-term financial instruments (Note 3)	-	2,500	-	2,107
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩ 159,729 million in 2002 and ₩ 172,927 million in 2001 (Notes 2, 15 and 17)	1,024,515	1,189,393	863,622	1,002,607
Accounts receivable-other, net of allowance for doubtful accounts of ₩ 3,405 million in 2002 and ₩ 3,386 million in 2001 (Notes 2 and 15)	62,765	193,560	52,908	163,163
Prepaid expenses	19,302	17,394	16,271	14,662
Inventories	144,409	58,159	121,731	49,026
Short-term loans (Note 4)	5,276	20,774	4,447	17,512
Other current assets	36,269	13,097	30,574	11,040
	1,315,196	1,547,239	1,108,654	1,304,256
<b>NON-CURRENT ASSETS:</b>				
Long-term financial instruments (Note 3)	56	75	47	63
Investment securities (Note 5)	1,699,534	309,498	1,432,634	260,894
Long-term loans (Note 4)	44,711	27,846	37,689	23,473
Guarantee deposits, net of allowance for doubtful accounts of ₩ 4,989 million in 2002 and ₩ 4,719 in 2001	221,052	212,407	186,338	179,050
Deferred income tax assets (Note 12)	77,681	75,657	65,482	63,776
Property and equipment, net (Notes 6 and 8)	4,657,319	4,307,778	3,925,920	3,631,272
Intangibles (Note 7)	10,953	9,373	9,233	7,901
Other non-current assets	6,725	6,519	5,669	5,495
	6,718,031	4,949,153	5,663,012	4,171,924
<b>Total Assets</b>	<b>₩ 8,033,227</b>	<b>₩ 6,496,392</b>	<b>\$ 6,771,666</b>	<b>\$ 5,476,180</b>

(CONTINUED)

## NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2002 AND 2001

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2002	2001	2002	2001
	(In millions)		(In thousands)	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Short-term borrowings (Note 9)	₩ 530,000	₩ 650,000	\$ 446,767	\$ 547,922
Trade accounts and notes payable (Note 15)	394,264	225,937	332,348	190,455
Current portion of long-term debt, net of discount on debentures of ₩ 5,181 million in 2002 and ₩ 29,100 million in 2001 (Notes 8, 9 and 10)	792,494	642,838	668,038	541,885
Accounts payable-other (Notes 5, 13 and 15)	878,751	544,241	740,749	458,772
Accrued expenses	54,649	25,565	46,067	21,550
Withholdings	104,277	114,585	87,901	96,590
Income tax payable	40,804	-	34,396	-
Other current liabilities	19,437	38,964	16,385	32,845
	2,814,676	2,242,130	2,372,651	1,890,019
<b>LONG-TERM LIABILITIES:</b>				
Debentures, net (Note 10)	2,517,606	1,977,771	2,122,234	1,667,176
Long-term debt, net of current portion (Note 9)	100,000	216,994	84,296	182,917
Long-term obligation under capital lease, net of current portion (Note 8)	536	2,828	452	2,384
Accrued severance indemnities, net of payments to National Pension of ₩ 931 million in 2002 and ₩ 1,257 million in 2001 (Note 2)	30,492	24,535	25,703	20,682
Other long-term liabilities	4,293	138	3,619	116
	2,652,927	2,222,266	2,236,304	1,873,275
<b>Total Liabilities</b>	<b>5,467,603</b>	<b>4,464,396</b>	<b>4,608,955</b>	<b>3,763,294</b>
<b>SHAREHOLDERS' EQUITY:</b>				
Common stock (Note 11)	920,290	920,290	775,765	775,765
Paid-in capital in excess of par value	1,132,834	1,132,834	954,930	954,930
Retained earnings (net income of ₩ 532,163 million in 2002 and ₩ 433,027 million in 2001)	542,644	10,481	457,426	8,835
Capital adjustments:				
Treasury stock (Note 11)	(30,999)	(30,997)	(26,131)	(26,129)
Loss on valuation of investment securities (Note 5)	(209)	(612)	(176)	(515)
Stock compensation (Note 11)	1,064	-	897	-
	2,565,624	2,031,996	2,162,711	1,712,886
<b>Total Shareholders' Equity</b>	<b>₩ 2,565,624</b>	<b>₩ 2,031,996</b>	<b>\$ 2,162,711</b>	<b>\$ 1,712,886</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>₩ 8,033,227</b>	<b>₩ 6,496,392</b>	<b>\$ 6,771,666</b>	<b>\$ 5,476,180</b>

See accompanying notes to non-consolidated financial statements.

## NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2002	2001	2002	2001
	(In millions, except per share amounts)		(In thousands, except per share amounts)	
OPERATING REVENUE (Notes 14, 15 and 18)	₩ 5,353,073	₩ 4,468,026	\$ 4,512,411	\$ 3,766,354
OPERATING EXPENSES (Notes 14 and 15)	4,508,882	3,720,237	3,800,794	3,136,000
OPERATING INCOME	844,191	747,789	711,617	630,354
OTHER INCOME (EXPENSES), NET:				
Interest income	17,950	19,157	15,131	16,149
Gain on disposal of marketable securities, net	-	3,824	-	3,223
Rental income	11,526	8,292	9,716	6,990
Gain (loss) on foreign currency transactions, net	1,083	(440)	913	(370)
Gain on foreign currency translation, net	2,182	9,652	1,839	8,136
Gain on retirement of debenture	-	8,206	-	6,917
Interest expense	(216,092)	(231,003)	(182,156)	(194,726)
Loss on disposal of trade accounts and notes receivable (Note 17)	(15,147)	-	(12,768)	-
Loss on valuation of inventories	(2,155)	(7,966)	(1,817)	(6,715)
Loss on valuation using the equity method of accounting (Note 5)	(122)	-	(103)	-
Gain (loss) on disposal of investment securities, net	(36)	145	(30)	122
Loss on disposal of property and equipment, net	(45,606)	(24,581)	(38,444)	(20,721)
Impairment loss on investment securities (Note 5)	(2,774)	(4,203)	(2,338)	(3,543)
Other, net	17,443	32,147	14,703	27,099
	(231,748)	(186,770)	(195,354)	(157,439)
ORDINARY INCOME	612,443	561,019	516,263	472,915
EXTRAORDINARY ITEMS	-	-	-	-
INCOME BEFORE INCOME TAX EXPENSE	612,443	561,019	516,263	472,915
INCOME TAX EXPENSE (Note 12)	(80,280)	(127,992)	(67,672)	(107,892)
NET INCOME	₩ 532,163	₩ 433,027	\$ 448,591	\$ 365,023
EARNINGS PER SHARE (Note 2)	₩ 2,904	₩ 2,568	\$ 2.448	\$ 2.165
DILUTED EARNINGS PER SHARE (Note 2)	₩ 2,894	₩ 2,568	\$ 2.440	\$ 2.165

See accompanying notes to non-consolidated financial statements.

## NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2002	2001	2002	2001
	(In millions)		(In thousands)	
RETAINED EARNINGS BEFORE APPROPRIATIONS:				
Unappropriated retained earnings (undisposed deficit)				
carried over from prior years	₩ 10,481	₩ (422,546)	\$ 8,835	\$ (356,188)
Net income	532,163	433,027	448,591	365,023
	542,644	10,481	457,426	8,835
APPROPRIATIONS OF RETAINED EARNINGS	-	-	-	-
UNAPPROPRIATED RETAINED EARNINGS TO BE				
CARRIED FORWARD TO SUBSEQUENT YEAR	₩ 542,644	₩ 10,481	\$ 457,426	\$ 8,835

See accompanying notes to non-consolidated financial statements.



## NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2002	2001	2002	2001
	(In millions)		(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income	₩ 532,163	₩ 433,027	\$ 448,591	\$ 365,023
Addition of expenses not involving cash outflows:				
Loss on disposal of property and equipment, net	45,606	24,581	38,444	20,721
Depreciation	723,667	533,995	610,020	450,135
Amortization of intangibles	1,832	4,572	1,544	3,854
Amortization of discounts on debentures	33,452	38,471	28,199	32,429
Provision for severance indemnities	15,100	6,780	12,729	5,715
Loss on disposal of trade accounts and notes receivable	15,147	-	12,768	-
Loss on valuation using the equity method of accounting	122	-	103	-
Loss on disposal of investment securities, net	36	-	30	-
Loss on valuation of inventories	2,155	7,966	1,817	6,715
Stock compensation	1,064	-	897	-
Impairment losses on investment securities	2,774	4,203	2,338	3,543
Bad debt expense	23,555	68,169	19,856	57,464
Other	2,161	514	1,821	433
	866,671	689,251	730,566	581,009
Deduction of revenues not involving cash inflows:				
Gain on foreign currency translation, net	2,182	9,652	1,839	8,136
Gain on disposal of investment securities, net	-	145	-	122
Gain on retirement of debentures	-	8,206	-	6,917
Other	3	3,824	3	3,224
	2,185	21,827	1,842	18,399
Changes in assets and liabilities resulting from operations:				
Increase in trade accounts and notes receivable	(396,750)	(470,383)	(334,444)	(396,513)
Decrease in accounts receivable-other	27,537	160,934	23,213	135,660
Decrease (Increase) in prepaid expenses	(1,908)	26,899	(1,608)	22,675
Decrease (Increase) in inventories	(88,072)	24,972	(74,241)	21,050
Increase in other current assets	(23,173)	(2,918)	(19,534)	(2,460)
Payment of severance indemnities	(9,487)	(2,725)	(7,997)	(2,297)
Increase (Decrease) in trade accounts and notes payable	168,328	(98,557)	141,893	(83,079)
Increase (Decrease) in accounts payable-other	334,530	(13,985)	281,994	(11,789)
Increase (Decrease) in accrued expense	29,083	(5,054)	24,516	(4,260)
Increase (Decrease) in withholdings	(10,308)	76,478	(8,689)	64,468
Increase in income tax payable	40,804	-	34,396	-
Increase (Decrease) in other current liabilities	(19,509)	12,652	(16,446)	10,665
Decrease in National Pension	325	184	274	155
Decrease (Increase) in deferred income tax assets	(2,025)	127,992	(1,707)	107,892
Increase in other long-term liabilities	4,165	-	3,511	-
	53,540	(163,511)	44,710	(137,833)
Net cash provided by operating activities	₩ 1,450,189	₩ 936,940	\$ 1,222,446	\$ 789,800

(CONTINUED)

## NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2002	2001	2002	2001
	(In millions)		(In thousands)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Cash inflows from investing activities				
Proceeds from sale of marketable securities	₩ -	₩ 81,235	\$ -	\$ 68,478
Collection of short-term loans	33,170	17,542	27,961	14,787
Proceeds from sale of investment securities	5,101	755	4,300	636
Withdrawal of guarantee deposits	25,439	73,912	21,444	62,305
Withdrawal of short term financial instruments	2,500	50	2,108	42
Proceeds from disposal of property and equipment	6,553	120,955	5,524	101,960
Proceeds from disposal of intangible assets	4	3,546	3	2,989
Other	169	-	142	-
	72,936	297,995	61,482	251,197
Cash outflow from financing activities				
Purchase of marketable securities	-	(50,000)	-	(42,148)
Purchase of investment securities	(1,354,787)	(193,566)	(1,142,027)	(163,168)
Payment of guarantee deposits	(34,307)	(85,485)	(28,920)	(72,060)
Acquisition of property and equipment	(1,014,278)	(1,083,199)	(854,993)	(913,090)
Increase in intangibles	(3,443)	(4,409)	(2,902)	(3,717)
Payment of long-term loans	(34,537)	(9,575)	(29,113)	(8,071)
Other	(382)	(2,522)	(322)	(2,126)
	(2,441,734)	(1,428,756)	(2,058,277)	(1,204,380)
Net cash used in investing activities	(2,368,798)	(1,130,761)	(1,996,795)	(953,183)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Cash inflows from financing activities				
Proceeds from sale of trade accounts and notes receivable	470,000	-	396,190	-
Proceeds from short-term borrowings	1,295,000	930,000	1,091,629	783,950
Proceeds from issuance of debentures	1,111,208	1,208,926	936,701	1,019,073
Proceeds from long-term debt	100,000	200,000	84,296	168,591
Increase from merger	-	10,185	-	8,586
	2,976,208	2,349,111	2,508,816	1,980,200
Cash outflows from financing activities				
Repayment of short-term borrowings	(1,415,000)	(1,015,000)	(1,192,784)	(855,601)
Repayment of debentures	-	(13,167)	-	(11,099)
Repayment of current portion of long-term debt	(672,290)	(946,066)	(566,712)	(797,493)
Repayment of long-term debt	-	(114,105)	-	(96,186)
Acquisition of treasury stock	(1)	(1,967)	(1)	(1,658)
Repayment of other non-current liabilities	(10)	(8,668)	(8)	(7,307)
	(2,087,301)	(2,105,841)	(1,759,505)	(1,775,134)
Net cash provided by financing activities	888,907	243,270	749,311	205,066
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(29,702)	49,449	(25,038)	41,683
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	52,362	2,913	44,139	2,456
CASH AND CASH EQUIVALENTS, END OF YEAR	₩ 22,660	₩ 52,362	\$ 19,101	\$ 44,139

(CONTINUED)

## NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2002	2001	2002	2001
	(In millions)		(In thousands)	
<b>TRANSACTIONS NOT INVOLVING CASH:</b>				
Transfer of trade accounts and notes receivable to				
investments securities	₩ 43,430	₩ -	\$ 36,610	\$ -
Transfer of bonds to current portion of long term debt	571,103	360,486	481,415	303,874
Transfer of bonds with stock warrants to common stocks	-	99,973	-	84,273
Transfer of long-term prepaid expenses to short-term				
prepaid expenses	-	5,156	-	4,346
Transfer of long-term obligation under capital lease to				
current portion of long-term debt	2,235	1,263	1,884	1,065
Transfer of interest expense to construction in progress	34,116	39,611	28,758	33,390
Transfer of long-term debt to current portion of long-term debt	216,994	102,875	182,917	86,719
Transfer of long-term loans to short-term loans	17,672	18,833	14,897	15,875

See accompanying notes to non-consolidated financial statements.

## NOTES TO FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2002 AND 2001

### 1. GENERAL:

KT Freetel Co., Ltd. (the "Company") was incorporated on January 3, 1997, under the Commercial Code of the Republic of Korea, and listed on the Korean Securities Dealers Association Automated Quotation System (the KOSDAQ) in December 1999. The Company is currently engaged in providing personal communications service ("PCS"), value added services and sale and lease of personal communication devices.

As of December 31, 2002, the shareholders of the Company are as follows:

	Number of shares	Percentage of ownership (%)
KT Corporation	74,107,242	40.26
JPMCB-CAP RE EM GTH FD	4,574,070	2.49
Qualcomm Incorporated	4,416,350	2.40
SSB Capital Communications	4,279,000	2.32
HyoSung Corp.	3,017,276	1.64
Microsoft Corp.	2,030,000	1.10
Others	91,634,105	49.79
	184,058,043	100.00

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Company may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured, and translated into English (with certain expanded descriptions) from the Korean language financial statements.

The US dollar amounts presented in these financial statements were computed by translating the Korean won into US dollars based on the noon buying rate of ₩ 1,186.30 to US\$1.00 at December 31, 2002 in the City of New York for cable transfers in won as certified for customs purposes by the Federal Reserve Bank of New York, solely for the convenience of the reader. This convenience translation into US dollars should not be construed as a representation that the Korean won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.



Significant accounting policies followed by the Company in preparing the accompanying financial statements are summarized as follows:

#### Use of Estimates

The preparation of financial statements in accordance with Korean GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant estimates and assumptions relate to the allowance for doubtful accounts and depreciation. Actual results could differ from those estimates and may affect amounts reported in future periods. Management believes that the estimates are reasonable.

#### Revenue Recognition

The Company's revenues are principally derived from sales of PCS handsets and PCS service revenues, which consist of non-refundable initial subscription fees, fixed monthly access fees and usage charges. The Company recognizes sales on PCS handsets when they are delivered to the dealers, fixed monthly access fees in the period earned, and usage charges and non-refundable initial subscription fees at the time services are rendered.

#### Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on the estimated collectibility of individual accounts and historical bad debt experience.

Changes in allowance for doubtful trade accounts and notes receivable and accounts receivable-other for the years ended December 31, 2002 and 2001 are summarized as follows :

	(won in millions)	
	2002	2001
Beginning of year	₩ 176,313	₩ 59,157
Write-offs	(36,734)	(16,602)
Provision	139,579	42,555
Increase due to merger	23,555	63,450
End of year	₩ 163,134	₩ 176,313

#### Inventories

Inventories are stated at the lower of cost or net realized value, cost being determined using the average cost method. If the net realizable value of inventories is lower than cost, inventories are adjusted to net realizable value and the difference between cost and revalued amount is charged to current operations.

#### Investment Securities

##### (1) Equity Securities

Equity securities held for investment (excluding those of affiliates and subsidiaries discussed in the next paragraph) that are not actively quoted (unlisted security) are stated at acquisition cost. Actively quoted (listed) securities, including those traded over-the-counter, are stated at fair value and the valuation gain or loss is recorded as a capital adjustment. If the fair value of a listed equity security or the net equity value of an unlisted equity security held for investment declines compared to acquisition cost and is not expected to recover (an impaired investment security), the value of the equity security is adjusted to fair value or net equity value and the valuation loss is charged to current operations.

Equity securities held for investment that are in companies in which the Company is able to exercise significant influence over the investees are accounted for using the equity method. The Company's share in net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to capital adjustments.

##### (2) Debt Securities

Debt securities held for investment are classified as either held-to-maturity investment debt securities or available-for-sale investment debt securities at the time of purchase. Investments in debt securities are classified as available-for-sale investment debt securities as follows:

- All held-to-maturity investment debt securities if some portion was sold during the current period
- Securities obliged to be sold before maturity by legal regulations
- Securities accounted for as investment securities impairment loss

Held-to-maturity investment debt securities are stated at acquisition cost determined by the individual moving average method. When the face value of a held-to-maturity investment debt security differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the security. Available-for-sale investment debt securities are stated at fair value and the valuation gains or losses are recorded as a capital adjustment. If the fair value of a held-to-maturity or a available-for-sale investment debt security declines compared to the acquisition cost and is not expected to recover (an impaired investment security), the carrying value of the debt security is adjusted to fair value and the valuation loss is charged to current operations.

##### (3) Gain or Loss on Valuation of Investment Securities

The net unrealized gain or loss is presented as gain or loss on valuation of investment securities in capital adjustments. An unrealized valuation gain or loss of investment securities incurred in subsequent periods is deducted from or added to the previous balance of unrealized valuation gain or loss of investment securities. When investment securities are sold, the unrealized valuation gain or loss of investment securities included in the capital adjustment account is added to or deducted from the gain or loss on disposal. With respect to an impaired investment security, any unrealized valuation gain or loss on the security previously included in the capital adjustment account is reversed.

**(4) Recovery of Impaired Investment Securities**

For commercial companies, the recovery of previously impaired investment securities is accounted for as follows:

For marketable equity securities and available for sale debt securities, the recovery is recorded in capital adjustment. For unlisted equity securities and held-to-maturity debt securities, the recovery is recorded in current operations up to the amount of previously recognized impairment loss.

**(5) Reclassification of Securities**

If the Company's objectives change, a trading security can be reclassified to investment securities, but only as of a balance sheet date. The difference between the fair value of the security as of the balance sheet date and the book value is recognized as gain or loss on valuation of trading securities and credited or charged to current operations. Investment securities cannot be reclassified to trading securities.

**Property and Equipment**

Property and equipment are stated at cost. Routine maintenance and repairs are expensed at the time incurred. Expenditures that result in enhancement of the value or extension of the useful lives of the facilities involved are capitalized as additions to property and equipment. In addition, interest expense and other financing charges for borrowings (that were used for the manufacture, purchase, or construction of property and equipment) incurred prior to completion of the asset are capitalized as part of the cost of such asset. Interest capitalization for the years ended December 31, 2002 and 2001 are as follow:

	(won in millions)			
	2002		2001	
Total interest incurred	₩	250,208	₩	270,614
Charged to expense		216,092		231,003
Interest capitalized	₩	34,116	₩	39,611

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Estimated useful lives
Buildings and structures	15-30 years
Machinery and equipment	8 years
Vehicles	4-8 years
Other	4-8 years

**Long-Lived Assets**

Long-lived assets are subject to review for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

**Leases**

Lease agreements that include a bargain purchase option, result in the transfer of ownership by the end of the lease term, have a term equal to at least 75% of the estimated economic life of the leased property or where the present value of the minimum lease payments at the beginning of the lease term equals or exceeds 90% of the fair value of the leased property are accounted for as capital leases. All other leases are accounted for as operating leases. Assets and liabilities related to capital leases are recorded as property, plant and equipment and long-term debt, respectively, and the related interest is calculated using the effective interest rate method. In respect to operating leases, the future minimum lease payments are expensed ratably over the lease term while contingent rentals are expensed as incurred.

**Intangibles**

Intangible assets are stated at cost, net of accumulated amortization computed using the straight-line method over the useful lives of the assets as described below.

	Estimated useful lives
Goodwill	5 years
Intellectual property rights	5-10 years
Facility use rights	10-20 years
Development costs	5 years

**Convertible bonds**

Interest expense on convertible bonds is recognized using the effective interest rate, which equalizes the issued amount of bonds to the present value of the future cash outflow of bonds. Accordingly, the differences between accrued interest and interest paid are presented as an addition to the normal value of bonds in the long-term accrued interest account.

**Discounts on Debentures**

Discounts on debentures are amortized over the redemption period of the debenture using the effective interest rate method. Amortization of discounts is recognized as interest expense.

### Accrued Severance Indemnities

All employees with more than one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company, based on their length of service and rate of pay at the time of termination. The severance indemnities that would be payable assuming all eligible employees were to resign as of December 31, 2002 and 2001 amount to ₩31,423 million and ₩25,792 million, respectively.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent portion and is paid back at the termination of service by offsetting the receivable against the severance payments. Such receivables, with a balance of ₩931 million and ₩1,257 million as of December 31, 2002 and 2001, respectively, are presented as deduction from accrued severance indemnities. Starting April 1999, the Company and its employees each pay 4.5 percent of monthly pay to the National Pension Fund under the revised National Pension Law of Korea.

Changes in accrued severance indemnities for the years ended December 31, 2002 and 2001 are as follows :

	(won in millions)	
	2002	2001
Beginning of year	₩ 25,792	₩ 10,263
Severance payments	(9,487)	(2,725)
	16,305	7,538
Provision	15,100	6,780
Increase due to merger and other	18	11,474
End of year	₩ 31,423	₩ 25,792

### Accounting for Foreign Currency Transactions and Translation

The Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet date and the translation gains or losses are reflected in current operations. The balances have been translated using the rate announced by the Bank of Korea Basic Rate, which was ₩ 1,200.40 and ₩ 1,326.10 to US\$ 1.00 at December 31, 2002 and 2001, respectively.

### Income Tax

The provision for income tax consists of the corporate income tax and resident surtax currently payable and changes in deferred income taxes for the period. The Company recognizes deferred taxes arising from temporary differences between amounts reported for financial accounting and income tax purposes. Deferred income taxes will be offset against those incurred in the future, if any. Deferred income taxes will be recalculated based on the actual rate, effective at each balance sheet date.

### Stock Compensation Expense

The Company records the difference between the present value of the exercise price and the stock price at the grant date as compensation expense with a corresponding credit to the capital adjustment account ("the fair value method"). The computed deferred compensation expenses are allocated over the contracted vesting period. When the stock options are exercised with the issuance of new shares, the difference between the exercise price plus the stock option cost recorded in the capital adjustment account and the par value of the new shares issued, is recorded as additional paid-in capital.

### Basic and Diluted Ordinary Income Per Share and Earnings Per Share

Ordinary income per share and earnings per share are computed by dividing ordinary income (after deducting the income tax effect) and net income by the weighted average number of common shares outstanding during the period. The number of shares used in computing earnings and ordinary income per share was 186,236 thousand shares and 168,652 thousand shares for the years ended December 31, 2002 and 2001, respectively.

Diluted ordinary income per share and earnings per share are computed by dividing ordinary income (after deducting the income tax effect) and net income by the weighted average number of common shares outstanding, including the additional common share that would have been outstanding if the dilutive potential common shares had been issued during the period. The number of shares used in computing diluted earnings and ordinary income per share was 184,108 thousand shares and 168,652 thousand shares for the years ended December 31, 2002 and 2001, respectively. Diluted ordinary income and earnings were ₩ 532,732 million and ₩ 433,027 million for the years ended December 31, 2002 and 2001, respectively.

The dilutive potential shares as of December 31, 2002 are as follows:

	Exercise period	Number of common shares to be issued
Convertible bonds	Nov. 29, 2003 - Nov. 29, 2005	9,946,236
Stock warrants	Until Nov. 25, 2004	1,851,851
Stock options	March 28, 2004 - March 28, 2009	18,000
"	March 25, 2005 - March 25, 2010	44,800



### Comparative Presentation

Certain amounts of prior year's financial statements are reclassified to conform to the current year's presentation. This reclassification does not affect the net loss and net assets of the prior period.

### 3. RESTRICTED DEPOSITS:

As of December 31, 2002 and 2001, the following deposits are subject to withdrawal restriction as collateral for borrowings and guarantee for checking accounts:

	2002		2001	
Short-term financial instruments	₩	–	₩	2,500
Long-term financial instruments		56		75
	₩	56	₩	2,575

### 4. LOANS TO EMPLOYEES:

As of December 31, 2002 and 2001, the Company has provided loans to its employees for housing and purchase of the Company's stock with the balance of ₩ 1,963 million and ₩ 2,131 million, respectively, which is recorded in short-term loans and ₩ 7,640 million and ₩ 12,396 million, respectively, in long-term loans.

### 5. INVESTMENT SECURITIES:

#### (1) Investment securities as of December 31, 2002 and 2001 are as follows :

	2002		2001	
Listed equity securities	₩	7,076	₩	1,321
Non-listed equity securities		11,296		296,511
Investments in affiliates		1,597,148		-
Investments in funds		39,522		4,666
Debt securities		44,492		7,000
	₩	1,699,534	₩	309,498

#### (2) Listed equity securities as of December 31, 2002 and 2001 are as follows :

	2002			2001
	Acquisition cost	Fair value	Gain (Loss) on valuation	Fair value
Wide Telecom Co.	₩ 300	₩ 30	₩ (270)	₩ 92
Dream line Co.	1,633	369	(1,264)	1,229
Gaeasoft Co., Ltd.	998	2,184	1,186	-
KRTnet Corp.	1,954	4,493	2,539	-
	₩ 4,885	₩ 7,076	₩ 2,191	₩ 1,321

The gain (loss) on valuation of the above listed equity securities is included in capital adjustments.

#### (3) Non-listed equity securities as of December 31, 2002 and 2001 are as follows :

	2002				2001
	Ownership (%)	Acquisition cost	Net asset value	Book value	Book value
KT ICOM	-	₩ -	₩ -	₩ -	₩ 270,000
Korea Digital Satellite Broadcasting Co., Ltd.	-	-	-	-	10,033
KRTnet Corp.	-	-	-	-	1,954
Gaeasoft Co., Ltd.	-	-	-	-	397
Mondex Korea Co., Ltd.	6.02	920	101	101	920
Internet Metix Inc.	2.00	200	25	23	200
Geotel Co., Ltd.	8.94	225	246	225	225
Mobilians Co., Ltd.	16.55	385	758	385	385
Inews24 Co., Ltd.	3.58	350	-	-	350
ENtoB Corp.	3.13	500	373	500	500
The Radio News Co., Ltd.	10.83	624	-	-	-
Korea Information & Communications, Inc.	3.86	500	32	32	500
Prime Venture Capital Co.	10.00	1,000	511	1,000	1,000
Onse Telecom Corp.	0.38	2,148	341	2,148	2,148
NAZCA entertainment Co., Ltd.	11.74	500	51	46	500
Toysoft Co., Ltd.	8.78	500	91	80	500
Knowledge Power Plant, Inc.	12.56	5,000	2,161	1,421	1,420
Ohmylove Co., Ltd.	12.06	1,200	275	1,200	1,200
Vacom Wireless, Inc.	16.77	1,880	932	1,880	1,880
Media Valley, Inc.	-	-	-	-	187
Others	-	2,340	2,804	2,255	2,212
		₩ 18,272	₩ 8,701	₩ 11,296	₩ 296,511

In 2002, the Company recognized an additional impairment loss of ₩ 2,774 million on non-listed equity securities of Mondex Korea Co., Ltd. and 7 other companies for which the net equity value had declined compared to the acquisition cost and it is not expected to recover. For the other non-listed equity securities, the Company's management believes that the decline in value is temporary and is expected to recover, thus, the Company did not recognize an impairment loss.

**(4) Investments in affiliates accounted for using the equity method of accounting as of December 31, 2002 are as follows:**

(won in millions)

	Ownership(%)	Acquisition cost	Book value
KT ICOM	87.27	₩ 1,587,265	₩ 1,587,888
Korea Digital Satellite Broadcasting Co., Ltd.	3.00	10,033	6,607
KTF Technologies Co., Ltd	57.40	2,372	2,653
		₩ 1,599,670	₩ 1,597,148

On December 13, 2002, the Company acquired shares of KT ICOM from the following related parties: 700 thousand shares from KT Hitel, 300 thousand shares from KT Powertel and 46,585 thousand shares from KT Corporation all at ₩ 18,227 per share. The Company also acquired 24,685 shares of KT ICOM from a third party for the same price. For the acquisition of KT ICOM's shares from KT Corporation, the Company paid cash of ₩ 540,000 million and gave a note for ₩ 309,103 million, due in March 2003. The Company paid cash to the third party, KT Hitel and KT Powertel.

As the Company and KT ICOM were subsidiaries of KT Corporation prior to the Company's additional acquisition of KT ICOM's shares, the Company recorded the assets and liabilities of KT ICOM at book value.

On November 30, 2002, the Company exercised the conversion right of convertible bonds at ₩ 5 thousand per share to acquire an additional 400,000 shares of common stock of KTF Technologies. The acquisition of KTF Technologies was recorded in accordance with the purchase method of accounting, with the ₩ 2,589 million excess of the fair value of KTF Technologies' net assets over the acquisition cost being assigned to negative goodwill. Negative goodwill will be recognized as income on a systematic basis over the remaining weighted average useful life (5 years) of the identifiable acquired depreciable or amortizable assets.

**(5) Investments in funds as of December 31, 2002 and 2001 are as follows :**

(won in millions)

	2002			2001		
	Ownership (%)	Acquisition cost	Net asset value	Ownership (%)	Acquisition cost	Net asset value
CEC Mobile Ltd.	16.67	₩ 4,456	₩ 4,456	-	₩ -	₩ -
Korea IT Fund	10.00	30,000	30,000	-	-	-
Korea Telecom Strategy Fund	10.00	2,000	2,000	10.00	2,000	2,000
KT Freetel Internal Venture	95.00	950	950	95.00	950	950
Others	-	2,116	2,116	-	1,716	1,716
		₩ 39,522	₩ 39,522		₩ 4,666	₩ 4,666

**(6) Debt securities as of December 31, 2002 and 2001 are as follows :**

(won in millions)

	2002		2001	
	Acquisition cost	Book value	Acquisition cost	Book value
Subordinated bonds	₩ -	₩ -	₩ 5,000	₩ 5,000
KTF First Securitization Specialty Co., Ltd.	43,430	43,430	-	-
Government bonds	562	562	-	-
Convertible bonds	500	500	2,000	2,000
	₩ 44,492	₩ 44,492	₩ 7,000	₩ 7,000

## 6. PROPERTY AND EQUIPMENT:

Property and equipment as of December 31, 2002 and 2001 are as follows:

	(won in millions)	
	2002	2001
Land	₩ 124,401	₩ 100,615
Buildings and structures	284,979	239,282
Machinery and equipment	5,552,307	4,767,283
Vehicles	9,938	8,556
Other	453,264	372,347
Construction in progress	415,848	319,885
	-----	-----
	₩ 6,840,737	₩ 5,807,968
Less: Accumulated depreciation		
Buildings and structures	(39,232)	(30,848)
Machinery and equipment	(1,909,744)	(1,309,439)
Vehicles	(4,505)	(3,589)
Other	(229,937)	(156,314)
	-----	-----
	₩ 4,657,319	₩ 4,307,778

The market value of the Company's land based on the official price of land (published by Ministry of Construction and Traffic) is ₩84,856 million as of December 31, 2002.

Depreciable assets are insured against fire and other casualty losses up to ₩225,032 million as of December 31, 2002.

## 7. INTANGIBLES:

(1) Intangibles, net of amortization, as of December 31, 2002 and 2001 are as follows :

	(won in millions)	
	2002	2001
Goodwill	₩ 1,951	₩ 670
Property rights of industry	1,038	778
Facility use rights	7,807	7,472
Development costs	-	248
Other	157	205
	-----	-----
	₩ 10,953	₩ 9,373

(2) Amortization of intangibles for the years ended December 31, 2002 and 2001 are as follows :

	(won in millions)	
	2002	2001
Goodwill	₩ 342	₩ 188
Property rights of industry	226	131
Facility use rights	969	866
Organization costs	-	764
Development costs	248	2,591
Other	47	32
	-----	-----
	₩ 1,832	₩ 4,572

(3) ₩19,991 million and ₩10,074 million of ordinary development costs were charged to expense for the years ended December 31, 2002 and 2001, respectively.

(4) Changes in development costs (intangibles) for the years ended December 31, 2002 and 2001 are as follows :

	(won in millions)	
	2002	2001
Beginning of year	₩ 248	₩ 2,839
Increase	-	-
Amortization	(248)	(2,591)
End of year	₩ -	₩ 248

## 8. LEASED ASSETS:

(1) The Company maintains operating lease agreements for certain machinery and equipment. The following are the future minimum rental payments under operating leases as of December 31, 2002 :

	(won in millions)	
Year	Operating lease payment	
2003	40,058	
2004	36,647	
	-----	
	₩ 76,705	



(2) The Company also has capital lease agreements for certain machinery and equipment, of which acquisition cost amounts to ₩ 8,163 million. Depreciation on the machinery and equipment for the year ended December 31, 2002 amounted to ₩ 1,348 million.

Annual future payments on the local currency lease agreements as of December 31, 2002 are as follows :

Year	Lease obligations	Interest	Lease payment
2003	₩ 1,486	₩ 99	₩ 1,585
Less: Current portion	(1,486)		
	₩ -		

Annual future payments on the foreign currency lease agreements as of December 31, 2002 are as follows:

Year	Lease obligations		Interest		Lease payment	
	U.S dollars	Won equivalent	U.S dollars	Won equivalent	U.S dollars	Won equivalent
2003	US\$ 564	₩ 678	US\$ 43	₩ 51	US\$ 607	₩ 729
2004	447	536	12	15	459	551
	1,011	1,214	US\$ 55	₩ 66	US\$ 1,066	₩ 1,280
Less: Current portion	(564)	(678)				
	US\$ 447	₩ 536				

## 9. BORROWINGS:

(1) Short-term debt as of December 31, 2002 and 2001 are as follows :

	Interest rate per annum (%)		
	2002	2002	2001
General loans	5.55 - 5.57	₩ 100,000	₩ 150,000
Discounted promissory notes	4.80 - 5.55	430,000	500,000
		₩ 530,000	₩ 650,000

(2) Long-term debt as of December 31, 2002 and 2001 are as follows :

	Interest rate per annum (%)		
	2002	2002	2001
Long-term debt in local currency:			
Facility loans	6.50	₩ 533	₩ 1,679
General loans	5.15 - 8.85	300,813	203,890
		301,346	205,569
Less: Current portion		(201,346)	(4,223)
		100,000	201,346
Long-term debt in foreign currency:			
General loans	5.18	14,165	31,296
Less: Current portion		(14,165)	(15,648)
		-	15,648
		₩ 100,000	₩ 216,994

(3) Payment schedules for the Company's long-term debt as of December 31, 2002 are as follows:

Year	Local currency (In millions)	Foreign currency		Total (In millions)
		U.S. Dollars (In thousands)	Korean won (In millions)	
2003	₩ 201,346	\$ 11,800	₩ 14,165	₩ 215,511
2004	100,000	-	-	100,000
	₩ 301,346	\$ 11,800	₩ 14,165	₩ 315,511

As of December 31, 2002, the Company has been provided payment guarantees amounting to U.S. \$11,800 thousand by KT Corporation, a major shareholder. Also, the Company provided one blank check to Samsung Capital Co., Ltd. and one blank check to KTB Network Co., Ltd. as collateral.

## 10. DEBENTURES:

## (1) Debentures as of December 31, 2002 and 2001 are as follows :

	Interest rate per annum (%)		(won in millions)	
	2002	2002	2001	
General debentures	2.64-9.00	₩ 2,766,094	₩ 2,667,000	
Convertible bonds	1.00	370,000	-	
Less: Current portion		3,136,094	2,667,000	
Discount on debentures		(580,000)	(650,000)	
Add: Long-term accrued interest		(39,157)	(39,229)	
		669	-	
		₩ 2,517,606	₩ 1,977,771	

## (2) General debentures as of December 31, 2002 and 2001 are as follows :

	Due date	Interest rate per annum (%)		(won in millions)	
		2002	2002	2001	
16th	Jun. 30, 2002	9.26	-	30,000	
17th	July 12, 2002	8.00	-	170,000	
18th	Sep. 25, 2002	8.85	-	100,000	
19th	Nov. 6, 2003	8.00	250,000	250,000	
20th	Feb. 9, 2006	6.00	300,000	300,000	
21st	Mar. 19, 2004	6.00	400,000	400,000	
22nd	Apr. 18, 2004	2.70	94,014	94,375	
			(JPY 9,390)	(JPY 9,390)	
23rd	Apr. 20, 2006	3.13	47,003	47,183	
			(JPY 4,695)	(JPY 4,695)	
25th	Jan. 8, 2002	6.00	-	45,000	
26th	Feb. 2, 2002	7.00	-	170,000	
27th	Feb. 18, 2002	7.00	-	45,000	
28th	Apr. 8, 2004	7.00	200,000	200,000	
29th	Jun. 14, 2002	7.00	-	45,000	
30th	July 9, 2002	7.00	-	45,000	
31st	May 9, 2003	9.00	50,000	50,000	
32nd	July 3, 2003	8.00	70,000	70,000	
33rd	July 18, 2003	8.00	110,000	110,000	
34th	Aug. 25, 2003	8.00	100,000	100,000	
37th	May 24, 2005	2.64	95,077	95,442	
			(JPY 9,497)	(JPY 9,497)	
38th	July 16, 2004	6.00	300,000	300,000	
40th	Feb. 18, 2005	6.00	350,000	-	
41st	Aug. 26, 2005	5.92	200,000	-	
42nd	Nov. 14, 2007	5.94	200,000	-	
			₩ 2,766,094	₩ 2,667,000	
			(JPY 23,583)	(JPY 23,583)	

Discounts on debentures are amortized over the period from the issue date to due date, using effective interest rate, and the amortized amounts are charged as interest expense.

(3) On November 29, 2002, the Company issued convertible bonds with a 1.0% coupon interest rate and a guaranteed interest rate on maturity rate of 2.0%. The bonds may be converted into common stock from November 29, 2002 to November 29, 2005 at the conversion price of ₩37,200. For the bonds not converted, the Company will redeem them with a premium calculated by applying the compound interest rate method to the difference between the guaranteed interest rate and the coupon interest rate. In relation to these convertible bonds, the Company recorded ₩669 million as long term accrued interest, which is shown as addition to debentures, as of December 31, 2002.

## (4) Payment schedules for the Company's debentures as of December 31, 2002 are as follows :

Year	Amount		(won in millions)
	Year	Amount	
2003	€	580,000	
2004		994,014	
2005		1,015,077	
2006		347,003	
2007		200,000	
	€	3,136,094	

## 11. SHAREHOLDERS' EQUITY:

## (1) Capital stock

The Company has authorized 400,000,000 shares of ₩ 5,000 par value common stock and issued 184,058,043 shares as of December 31, 2002.

## (2) Treasury stock

As of December 31, 2002, the Company holds 822,331 treasury shares consisting of 21,711 collateralized shares received from its sales agencies as payment for receivables and 800,620 shares purchased in connection with the merger. The Company intends to dispose of the treasury stock in near future.

## (3) Stock Option Plan

The Company entered into stock option agreements with the former Chief Executive Officer and senior managers. The details of the stock options granted as of December 31, 2002 are as follows :

(won in millions)

Grant Date	Employee	Number of shares	Exercise	Methods	Exercise period
2001. 3.29	Former CEO	18,000	€ 41,273	New stock issue	2004. 3.28-2009. 3.28
2002. 3.25	Senior managers	44,800	45,178	New stock issue	2005. 3.25-2010. 3.25

The Company values stock options granted based on the fair value method (see Note 2). Total compensation expense of ₩1,881 million was allocated over the vesting period, and the compensation expense charged to operations for the year ended December 31, 2002 is ₩1,064 million.

## 12. INCOME TAX AND DEFERRED INCOME TAXES:

(1) The statutory corporate income tax rate (including resident surtax) applicable to the Company was approximately 29.7 percent and 30.8 percent in 2002 and 2001, respectively. Income tax expense for the years ended December 31, 2002 and 2001 is as follows :

(won in millions)

	2002	2001
Income before income taxes	612,443	₩ 561,019
Adjustments:		
Permanent differences	8,163	7,715
Temporary differences, net	(5,949)	37,657
	2,214	45,372
Taxable income before tax loss carryforward	614,657	606,391
Tax loss carryforward	(150,653)	(527,907)
Tax loss carryforward from KTM.Com	-	(97,062)
Taxable income (loss)	464,004	(18,578)
Tax rate (%)	29.7	30.8
Tax calculated on taxable income	137,809	-
Tax credit	(52,631)	-
Income tax currently payable	82,304	-
Decrease (Increase) in deferred income taxes:		
Temporary differences	1,767	(29,086)
Utilization of accumulated tax losses carried forward	5,518	157,078
Utilization of accumulated tax credit carried forward	(9,309)	-
Income tax expense	₩ 80,280	₩ 127,992

(2) The changes in deferred income taxes for the years ended December 31, 2002 and 2001 are as follows :

(won in millions)

	2002	2001
Beginning of year	€ 75,657	194,289
Increase	9,309	38,446
Decrease	(7,285)	(157,078)
End of year	€ 77,681	75,657

## 13. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY:

As of December 31, 2002 and 2001, assets and liabilities denominated in foreign currencies, other than the lease obligations under capital lease, long-term debt and debentures in foreign currencies described in Notes 8, 9 and 10, are as follows :

(foreign currencies other than U.S. dollars are translated into U.S. dollars; Korean won in millions)

Account	2002		2001	
	U.S.dollars	Won equivalent	U.S.dollars	Won equivalent
Cash and cash equivalents	\$ 261	€ 314	\$ 2,806	3,721
Accounts payable- other	2,343	2,813	2,035	2,699

## 14. OPERATING REVENUE AND EXPENSES:

(1) Operating revenue for the years ended December 31, 2002 and 2001 consist of the following :

(won in millions)

	2002	2001
PCS service	€ 4,241,454	€ 3,560,562
Sales of PCS handsets	1,111,619	907,464
	5,353,073	€ 4,468,026



(2) Operating expenses for the years ended December 31, 2002 and 2001 is summarized below :

	(won in millions)	
	2002	2001
Salaries and wages	€ 133,695	€ 86,405
Provision for severance indemnities	15,100	6,780
Employee welfare	23,686	30,075
Rent	80,885	63,160
Lease	50,383	9,103
Commissions	348,729	277,112
Depreciation	723,667	533,995
Amortization	1,832	4,572
Tax and dues	41,451	30,537
Interconnection charges	462,117	463,855
Leased line charges	367,800	304,557
Ordinary development costs	19,991	10,074
Sales promotion	173,646	128,120
Sales commissions	553,015	541,001
Advertisements	144,938	106,044
Bad debt expense	23,555	68,169
Water and electricity	39,521	33,058
Communications	28,125	22,683
Repairs and maintenance	71,597	56,760
Cost of PCS handset sales	1,102,273	896,284
Other	102,876	47,893
	€ 4,508,882	€ 3,720,237

## 15. RELATED PARTY TRANSACTIONS:

(1) Transactions with related parties for the years ended December 31, 2002 and 2001 are as follows:

		(won in millions)	
Revenues:	Transaction	2002	2001
KT Corporation	Interconnection charges, others	549,493	537,870
KTM.Com	Interconnection charges, others	-	14,322
KT Solutions	Interconnection charges, others	5,671	1,029
KT ICOM	PCS revenues, others	1,816	824
KT Hitel	"	25	205
Others	"	514	3,802
		557,519	558,052

		(won in millions)	
Expenses:	Transaction	2002	2001
KT Corporation	Leased line charges, others	1,270,716	334,586
KTM.Com	Interconnection charges, others	-	11,637
KTF Technologies Co., Ltd.	PCS revenues, others	138,475	-
KT Hitel	"	539	2,264
Others	"	1,456	6,589
		1,411,186	355,076

## (2) Receivables and payables with related parties as of December 31, 2002 and 2001 are as follows :

	(won in millions)			
	Receivables		Payables	
	2002	2001	2002	2001
KT Corporation	₩ 161,002	₩ 155,773	₩ 325,405	₩ 13,897
KT ICOM	679	91	13,780	
KT Solutions	-	-	17	-
KT Hitel	-	-	20	1,032
KTF Technologies Co., Ltd.	-	-	61,689	-
Others <sup>6</sup>	13	-	1	
	₩ 161,687	₩ 155,877	₩ 400,911	₩ 14,930

## 16. COMMITMENTS:

The Company has entered into an agreement covering the resale of PCS with KT Corporation. As compensation for providing telecommunications network, the Company receives some portion of the monthly revenues generated from KT Corporation's subscribers.

## 17. DISPOSAL OF TRADE ACCOUNTS AND NOTES RECEIVABLE:

On December 16, 2002, the Company transferred the handset installment receivable of ₩528,578 million and guarantee insurance and other incident rights to KTF First Securitization Specialty Co., Ltd. As a result of this disposal, the Company received the cash of ₩470,000 million and the subordinate debt investment of ₩43,430 million, and the Company recognized a loss on disposal of trade accounts and notes receivable of ₩15,147 million. The Company has provided a guarantee for uncollected receivables up to 14.3 percent of total amount transferred. As of December 31, 2002, the uncollected securitized trade receivable is ₩400,200 million.

## 18. BUSINESS SEGMENTS:

The Company's operations consist of 016 division and 018 division classified by recognition code providing the same services and devices. Details of the Company's business segment operation for the year ended December 31, 2002 are as follows :

	(won in million)		
	016 division	018 division	Total
Operating revenue	₩ 4,111,704	₩ 1,241,369	₩ 5,353,073
Operating income	603,705	240,486	844,191
Ordinary income	464,704	147,739	612,443
Depreciation	539,029	184,638	723,667
Property and equipment, net ( * )	3,231,656	1,009,815	4,241,471

( \* ) Construction in progresses is not included.

## 19. MERGER:

On January 28, 2003, the Board of Directors approved the merger with KT ICOM. The transaction is deemed to be a "small-scale merger" as defined in the Commercial Code of the Republic of Korea, which states that the total number of new shares to be issued by the acquiring company does not exceed 5 percent of the total issued shares of the acquiring company. In accordance with the Commercial Code of the Republic of Korea, the approval by the general shareholders of the Company may be replaced by the approval of the board of directors of the Company. The exchange ratio of common share between the Company and KT ICOM is 1 to 0.55636 and the merger is expected to be completed by March 1, 2003.

## Board of Directors and Audit Committee



**Joong Soo Nam**  
Standing Director

Presently President and CEO of KTF  
Head of Finance & Accounting Office of KT  
Head of IMT2000 Business Division of KT  
Head of Chungbuk Regional Business Group of KT  
Head of Policy, Regulation Business & Co-operation Office of KT  
Ph.D. in Business Administration in the University of Massachusetts of the U.S.



**Young Chu Cho**  
Standing Director

Presently Head of Network Division of KTF, Executive Vice-President  
President and CEO of KTICOM  
Head of Business Planning Group of IMT2000 Business Division of KT  
Head of Business Management Office of Marketing Division of KT  
Ph.D. and M.S. in Traffic Engineering in Seoul National University



**Young Han Song**  
Non-Standing Director

Presently Senior Executive Vice-President and Head of Planning and Coordination Office of KT  
Head of Marketing Division of KT  
Head of PR Office of KT  
Passed the 22nd State Examination of Administration  
B.A. in Applied Statistics in Yonsei University



**Haing Min Kwon**  
Non-Standing Director

Presently Head of Vision & Corporate Strategy office of KT, Vice President  
Head of Privatization Planning Team of Office of Privatization of KT  
Head of Management Analysis Research Team of R&D Group of KT  
M.S. in Business Administration in Korea Advanced Institute of Science and Technology (KAIST)  
B.A. in Business Administration in Seoul National University

Executing the merger with KTICOM was a landmark achievement that formed a firm base that will allow KTF to grow into the world's best mobile communication company. This year, the company appointed Joong Soo Nam as the fourth President of KTF, and he has pledged to establish the company as a leader in creating a professional management operational structure. KTF has declared its management goal to be 'Maximizing Shareholders' Value' and will be making very effort to achieve this goal through 'Transparent Management' and 'Concentrating on Cash Flow'. It is our strong determination to construct an advanced and transparent company management structure.

In 2003, KTF rearranged the ratio of number of outside directors and in-house directors from the conventional same number to 5:4. Having a Board of Directors where half of them are outside directors produces clean and clear operation that maximizes shareholders' value. The total number of Board members is nine, and that is the most effective number for discussions and making decisions. In addition, the company introduced and applied outside directors' 'Staggering Office-Term System' to prevent any office vacuum that can occur when every outside director has the same term of their office.

At the same time, in order to support to the Board of Directors, KTF created and now operates small committees as below:

### Audit Committee

In order to ensure clean and transparent financial audits, it consists of 3 outside directors who have professional backgrounds.

### Financial Committee

It is composed of one outside director and 3 in-house directors to ensure prompt decision-making regarding financial issues and effective operation of Board of Directors.

### Candidate Nomination Committee for Outside Directors

It consists of 3 outside directors and 2 in-house directors (Half of them are outside directors) to establish a thorough and accurate process in nominating and selecting outside directors.



**Joong Woong Kim**  
Outside Director /  
Head of Audit Committee,  
Head of Candidate Nomination  
Committee for Outside Directors

Presently President of Hyundai Economic Research Institute  
President, National Information & Credit Evaluation Inc.  
Research Director, Korea Development Institute  
Director, Department of Financial Policy, Department of Foreign Capital in the Ministry of Finance  
Ph.D. in Economics in Clark University, U.S.A



**Il Chong Nam**  
Outside Director /  
Member of Audit Committee,  
Member of Candidate Nomination  
Committee for Outside Directors

Presently Professor of KDI Graduate School of Public Policy and Management  
Presently Head of Management Commission, Bankruptcy Department of Seoul District Court  
Senior Fellow at Korea Development Institute, Assistant Professor of Economics at University of Arizona, OECD Consultant  
Ph.D. in Economics, University of Michigan



**Dong Ho Cho**  
Outside Director /  
Member of Candidate Nomination  
Committee for Outside Directors

Presently Professor of KAIST of Electrical Engineering and Computer Science  
Presently Planning Director of the Korean Institute of Communication Sciences  
Professor of Computer Engineering Department and Director of Computer Center of Kyunghee University  
Senior Research engineer of KIST  
Ph.D. in Telecommunication Engineering in KAIST

In addition, KTF plans to form and operate a 'Compensation Committee' in the Board of Directors by the first half of this year. This committee will be charged with fairly and rationally evaluating the results of management's performance.

KTF also recently created a 'Corporate Governance Coordination Team' within the management organization. The mission of the CG Coordination Team is not only to manage and operate the Board of Directors, but also to strengthen the role of the Board of Directors and to establish transparent corporate ownership structure. Naming the 'Corporate Governance' to the organization of the company is a first case in Korea and this shows our firm conviction for continuing to maintain the advanced corporate ownership structure of the company

KTF is striving to improve the ownership by securing a global standard level of managerial transparency. We are convinced that this is the path that leads to strong steady growth that produces maximum value for our shareholders and customers. KTF will keep making efforts to protect the minor shareholders' right and benefits, as well as revive a system of outside directors' activities. We at KTF firmly believe the future



**Sung Chull Junn**  
Outside Director /  
Member of Audit Committee

Presently President of the Institute of Global Management  
Dean of the School of Business and Vice Chancellor of Sejong University  
Secretary to the President for Policy Development  
Lawyer of Kim & Chang Law Office  
MBA & JD in the University of Minnesota, U.S.A



**Myung Ja Kim**  
Outside Director

Presently CEO Visiting Professor of Seoul National University's Techno-Economics & Policy Program  
The 7th Minister of Environment  
Director of Citizens' Coalition for Economic Justice  
Commissioner of Presidential Advisory Council for Science Technology  
Tenure Member and Regular Member of Korean Academy of Science and Technology  
Ph.D. in Chemistry in the University of Virginia of the U.S.

success of our business depends on 'Responsible and Trustworthy Management' that gains and holds the trust and loyalty of our customers and shareholders.



## Mobile Life Partner KTF

1996

- 1996. 06. Acquired PCS (Personal Communication Service) business License
- 1996. 12. Founded Board meeting of KT Freetel Inc

1997

- 1997. 03. Acquired '016' prefix number
- 1997. 05. Established CI logo of Company and launched the brand 'PCS016'
- 1997. 06. Succeeded Korea's first PCS pilot service in 5 districts and 70 towns of Gangnam area and the calling test while on the fast move of the vehicle
- 1997. 08. Established PCS network throughout the country
- 1997. 10. Commercial PCS launched nationwide
- 1997. 12. Development of Korea's first interactive written message service and international roaming service in 76 countries begun
- 1997. 12. Made strategic alliance with Hansol PCS in integrated network and operation



1998

- 1998. 02. Number of subscribers reached over 500,000 for the first time in the industry
- 1998. 03. Korea's first bi-directional written message information service started
- 1998. 04. Developed 'Net Spider', a wireless network design and quality analysis system and Korea's first intelligent optical spreading system completed
- 1998. 04. Number of subscribers exceeded one million for the first time in the world in such a short period. Development of PCS facility operating & management system (FOMS)
- 1998. 10. Ranked as second position in the Korean mobile communication industry
- 1998. 10. Number of subscribers reached over two million for the first time in the world in such a short period
- 1998. 10. Won CEO Award and Grand Prize for Customer Value Management in the '98 KMA Management Reformation Award
- 1998. 11. Awarded Grand Prize in the category of '98 New Media Specialized Company



1999

- 1999. 03. Number of subscribers reached over three million and declared the second stage of take-off for growth
- 1999. 04. Exported CDMA network design, management and operating technology to Hutchison of Australia
- 1999. 05. Held International CDMA Technology Symposium
- 1999. 06. Declared Company's Customer Service Charter and acquired Y2K Certification in every business area of Company for the first time in the industry
- 1999. 07. Korea's first demonstration of commercial IS-95B system
- 1999. 08. Developed Korea's smallest repeater (Smart-H) for the use of home and announced new brand '016'
- 1999. 09. PCS handset called 'Neon' developed by KTF for the use of internet and the number of subscribers reached over four million
- 1999. 10. Awarded 'Best Prize' in Mobile Communication category in 1999 Corporate Knowledge Management area, sponsored by Korea Management Association
- 1999. 12. Made strategic alliance with Microsoft, Qualcomm, and CDPQ. Company listed in KOSDAQ
- 1999. 12. Received 'Grand Prize' in '99 Communication Management category, selected by Korea Telecommunication Association



2000

- 2000. 03. Introduced wireless internet PCS phone (KTF-3016). Yong Kyung Lee was inaugurated as the 2nd CEO of KTF
- 2000. 04. Recorded in the Guinness Book by acquiring the most mobile phone subscribers in the shortest time (4.27 million subscribers at the end of 1999)
- 2000. 07. Opened 'Nazil', a total entertainment space for the exclusive use 'Na' subscribers, in 9 places nationwide and in China & Japan
- 2000. 09. Started joint 016/018 sales agencies located in town and county
- 2000. 09. Yong Kyung Lee, president of KTF, was inaugurated as chairman of GBDe
- 2000. 11. Held 2000/2001 Wireless Internet Forum (Announced policies for supporting CPs)
- 2000. 11. Number of 'Na' subscribers reached over one million
- 2000. 12. Introduced wireless credit card reading device for the first time in the world



- 2001. 01. Opened magic<sup>2</sup> site, Korea's largest wired and wireless internet portal
- 2001. 02. Started religion wireless internet portal service

2001

- 2001. 02. Launched B-to-B brand called 'VIZ'
- 2001. 03. Approved merger with KTM.com, CDMA business launched to Indonesia
- 2001. 03. Held demonstrating ceremony for Korea's first HDR technology
- 2001. 04. Introduced CDMA mobile communication module-installed pocket PC, 'Luxian'
- 2001. 04. Opened 'Drama House' in Myungdong, Gangnam, and Deajeon, the cultural space for the exclusive use of 'Drama' subscribers
- 2001. 05. Acquired KTM.com
- 2001. 05. Launched commercial service of CMDA2000 1x
- 2001. 05. Created brand 'KTF', Korea's representative mobile communication company
- 2001. 05. Number of subscribers reached over nine million
- 2001. 06. Approved and changed corporate name to 'KT Freetel Co., Ltd.' in shareholders' meeting
- 2001. 08. Launched 'Bigi', an exclusive brand for the 13 to 18 generation
- 2001. 09. Begun magic<sup>2</sup> Multipack Service Experience Group consisting of 5,000 persons
- 2001. 10. Spun off Company's handset development division as 'KTF Technologies'
- 2001. 11. Begun World's first commercial magic<sup>2</sup> multipack Service
- 2001. 11. Opened Site for cheering the World Cup National Soccer Team (www.koreateamfighting.com)
- 2001. 11. Yong Kyung Lee, CEO of KTF, appointed as a member of Asia Committee of UN Information Communication Technology (ICT)
- 2001. 11. Carried out evaluation test of commercial CDMA2000 1x EV-DO system
- 2001. 12. Launched CDMA business in India



2002

- 2002. 02. Started Company's voluntary social contribution group named 'Dream Creators'. Hold joint ceremony for donating fund to the UNISEF
- 2002. 02. Introduced world's first mobile on/off-line payment service
- 2002. 03. Signed international roaming service contract with China Mobile
- 2002. 04. Selected as 'The Best Company' in creating a new positive labor-management culture in 2002 by the Ministry of Labor (Certification No: 2002-2, Validity Period: Apr. 10, 2002 ~ Apr. 9, 2005)
- 2002. 04. Launched 'KfUmerce', an exclusive mobile commerce brand
- 2002. 04. Begun Korea's first international automatic roaming service with China Mobile
- 2002. 04. Declared Compliance Program for fair transactions
- 2002. 05. Young Kyung Lee, CEO of KTF, received 'Outstanding CEO Award' among the 10th Korea Marketing Awards given by Korea Management Association
- 2002. 05. Number of subscribers reached over ten million. Started IMT2000 service, 'fimm'
- 2002. 05. Started mobile phone service in Dok Island for the first time
- 2002. 06. Awarded first place in the mobile communication category and ranked fourth place overall among 'The 100 Best World-Class IT Companies' chosen by Business Week
- 2002. 06. Received '3G CDMA Achievement Award' at the '3G World Conference' held by CDMA Development Group
- 2002. 06. Started Korea-Japan international automatic roaming service
- 2002. 08. Kyung Joon Lee was inaugurated as the 3rd CEO of KTF
- 2002. 08. Started mobile phone service in Mara Island for the first time
- 2002. 09. CEO Kyung Joon Lee received 'Prize from the Prime Minister' among New Frequency Wave Technology Awards given by MIC
- 2002. 09. Received AAA Certification in service quality of KTF Members Center from Korea Management Association
- 2002. 09. KTF's all websites selected as 'Sites of Excellence in Private Information Protection' by Korea Association of Information and Telecommunication
- 2002. 10. Awarded 'The 2002 Korea Grand Prize' in the Internet Commerce category
- 2002. 10. Decided to purchase shares of KTICOM
- 2002. 11. Won 'The 2002 Grand Prize' in Customer Satisfaction Management category from Korea Management Association



2003

- 2003. 01. Joong Soo Nam was inaugurated as the 4th CEO of KTF
- 2003. 03. Approved and completed merger with KTICOM