

KT Corporation
Separate Interim Financial Statements
March 31, 2017 and 2016

KT Corporation
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March 31, 2017 and 2016

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Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of
KT Corporation

Reviewed Financial Statements

We have reviewed the accompanying separate interim financial statements of KT Corporation (the "Company"). These financial statements consist of the separate interim statement of financial position of the Company as of March 31, 2017, and the separate interim statements of profit or loss, separate interim statements of comprehensive income, separate interim statements of changes in equity and separate interim statements of cash flows for the three-month periods ended March 31, 2017 and 2016, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate interim financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") 1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of separate interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to issue a report on these separate interim financial statements based on our reviews.

We conducted our reviews in accordance with quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standard on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe the accompanying separate interim financial statements are not presented fairly, in all material respects, in accordance with the Korean IFRS 1034 *Interim Financial Reporting*.

Other Matters

We have audited the separate statement of financial position of the Company as of December 31, 2016, and the related separate statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, in accordance with Korean Standards on Auditing. We expressed an unqualified opinion on those separate financial statements in our audit report dated March 3, 2017. These separate financial statements are not included in this review report. The separate statement of financial position as of December 31, 2016 presented herein for comparative purposes, is consistent, in all material respects, with the above audited separate statement of financial position as of December 31, 2016.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries.

The signature is written in a cursive, handwritten style. It reads "Samil PricewaterhouseCoopers".

Seoul, Korea
May 15, 2017

This report is effective as of May 15, 2017, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

KT Corporation
Separate Interim Statements of Financial Position
March 31, 2017 and December 31, 2016

(in millions of Korean won)

	Notes	March 31, 2017 (Unaudited)	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents	4	₩ 1,102,580	₩ 1,602,397
Trade and other receivables, net	4,5	2,563,497	2,590,161
Other financial assets	4,6	60,303	289,613
Inventories, net	7	287,246	178,096
Assets held for sale	9	242,800	-
Other current assets	8	245,724	190,812
Total current assets		<u>4,502,150</u>	<u>4,851,079</u>
Non-current assets			
Trade and other receivables, net	4,5	541,688	622,045
Other financial assets	4,6	127,053	198,777
Property and equipment, net	10	11,538,238	11,961,193
Investment properties, net	10	651,846	662,985
Intangible assets, net	10	2,277,948	2,337,549
Investments in subsidiaries, associates and joint ventures	11	3,610,757	3,638,856
Deferred income tax assets		402,476	401,346
Other non-current assets	8	25,086	26,507
Total non-current assets		<u>19,175,092</u>	<u>19,849,258</u>
Total assets		<u>₩ 23,677,242</u>	<u>₩ 24,700,337</u>

KT Corporation
Separate Interim Statements of Financial Position
March 31, 2017 and December 31, 2016

(in millions of Korean won)

	Notes	March 31, 2017 (Unaudited)	December 31, 2016
Liabilities			
Current liabilities			
Trade and other payables	4,12	₩ 3,842,522	₩ 4,181,092
Borrowings	4,13	1,433,420	1,608,064
Other financial liabilities	4,6	14,171	-
Current income tax liabilities		99,841	22,551
Provisions	14	91,915	92,007
Deferred income		11,600	29,298
Other current liabilities	8	143,037	94,659
Total current liabilities		<u>5,636,506</u>	<u>6,027,671</u>
Non-current liabilities			
Trade and other payables	4,12	942,885	1,135,738
Borrowings	4,13	5,370,641	5,960,983
Other financial liabilities	4,6	34,559	13,386
Net defined benefit liabilities	15	317,611	284,931
Provisions	14	93,021	92,388
Deferred income		76,558	79,416
Other non-current liabilities	8	20,262	21,305
Total non-current liabilities		<u>6,855,537</u>	<u>7,588,147</u>
Total liabilities		<u>12,492,043</u>	<u>13,615,818</u>
Equity			
Share capital		1,564,499	1,564,499
Share premium		1,440,258	1,440,258
Retained earnings	17	9,242,103	9,156,204
Accumulated other comprehensive income		(21,062)	(32,091)
Other components of equity	18	(1,040,599)	(1,044,351)
Total equity		<u>11,185,199</u>	<u>11,084,519</u>
Total liabilities and equity		<u>₩ 23,677,242</u>	<u>₩ 24,700,337</u>

The accompanying notes are an integral part of these separate interim financial statements

KT Corporation
Separate Interim Statements of Profit or Loss
Three-Month Periods Ended March 31, 2017 and 2016

(in millions of Korean won, except per share amounts)

	Notes	Three-Month Periods Ended March 31	
		2017 (Unaudited)	2016 (Unaudited)
Operating revenue	19	₩ 4,161,418	₩ 4,200,856
Operating expenses	20	3,842,495	3,913,629
Operating profit		318,923	287,227
Other income	21	180,015	186,990
Other expenses	21	79,925	48,770
Finance income	22	208,963	90,154
Finance costs	22	269,706	154,151
Profit before income tax benefit		358,270	361,450
Income tax expense		73,685	82,832
Profit for the period		₩ 284,585	₩ 278,618
Earnings per share			
Basic earnings per share	23	₩ 1,162	₩ 1,138
Diluted earnings per share	23	₩ 1,162	₩ 1,138

The accompanying notes are an integral part of these separate interim financial statements

KT Corporation
Separate Interim Statements of Comprehensive Income
Three-Month Periods Ended March 31, 2017 and 2016

(in millions of Korean won)

	Notes	Three-Month Periods Ended March 31	
		2017 (Unaudited)	2016 (Unaudited)
Profit for the period		₩ 284,585	₩ 278,618
Other comprehensive income			
Items will not be reclassified to profit or loss:			
Remeasurements of the net defined benefit liability	15	(397)	148
Items that may be subsequently reclassified to profit or loss:			
Changes in value of available-for-sale financial assets	6	1	627
Net loss on cash flow hedges	6	(115,820)	(11,322)
Other comprehensive income from cashflow hedges reclassified to profit or loss		126,848	13,878
Other comprehensive income for the period, net of tax		10,632	3,331
Total comprehensive income for the period		₩ 295,217	₩ 281,949

The accompanying notes are an integral part of these separate interim financial statements

KT Corporation
Separate Interim Statements of Changes in Equity
Three-Month Periods Ended March 31, 2017 and 2016

(in millions of Korean won)

	Notes	Share capital	Share premium	Retained earnings	Accumulated other comprehensive income	Other components of equity	Total
Balance as of January 1, 2016		₩ 1,564,499	₩ 1,440,258	₩ 8,446,950	₩ (17,270)	₩ (1,050,481)	₩ 10,383,956
Comprehensive income							
Profit for the period		-	-	278,618	-	-	278,618
Changes in value of available-for-sale financial assets	6	-	-	-	627	-	627
Remeasurement of the net defined benefit liability	15	-	-	148	-	-	148
Valuation gains on cashflow hedge	6	-	-	-	2,556	-	2,556
Total comprehensive income for the period		-	-	278,766	3,183	-	281,949
Transactions with equity holders							
Dividends		-	-	(122,425)	-	-	(122,425)
Appropriation of retained earnings related to loss on disposal of treasury stock		-	-	(50)	-	50	-
Others		-	-	-	-	37	37
Balance as of March 31, 2016 (Unaudited)		₩ 1,564,499	₩ 1,440,258	₩ 8,603,241	₩ (14,087)	₩ (1,050,394)	₩ 10,543,517
Balance as of January 1, 2017		₩ 1,564,499	₩ 1,440,258	₩ 9,156,204	₩ (32,091)	₩ (1,044,351)	₩ 11,084,519
Comprehensive income							
Profit for the period		-	-	284,585	-	-	284,585
Changes in value of available-for-sale financial assets	6	-	-	-	1	-	1
Remeasurement of the net defined benefit liability	15	-	-	(397)	-	-	(397)
Valuation gains on cashflow hedge	6	-	-	-	11,028	-	11,028
Total comprehensive income for the period		-	-	284,188	11,029	-	295,217
Transactions with equity holders							
Dividends		-	-	(195,977)	-	-	(195,977)
Appropriation of retained earnings related to loss on disposal of treasury stock		-	-	(2,312)	-	2,312	-
Others		-	-	-	-	1,440	1,440
Balance as of March 31, 2017 (Unaudited)		₩ 1,564,499	₩ 1,440,258	₩ 9,242,103	₩ (21,062)	₩ (1,040,599)	₩ 11,185,199

The accompanying notes are an integral part of these separate interim financial statements

KT Corporation
Separate Interim Statements of Cash Flows
Three-Month Periods Ended March 31, 2017 and 2016

(in millions of Korean won)

	Notes	Three-Month Periods Ended March 31	
		2017 (Unaudited)	2016 (Unaudited)
Cash flows from operating activities			
Cash generated from operations	24	₩ 889,012	₩ 907,678
Interest paid		(72,538)	(83,738)
Interest received		10,884	6,748
Dividends received		1,827	2,405
Income tax paid		(763)	-
Net cash inflow from operating activities		828,422	833,093
Cash flows from investing activities			
Collection of loans		13,113	9,491
Grant of loans		(7,482)	(9,910)
Disposal of current financial instruments		160,000	-
Acquisition of current financial instruments		-	(10,000)
Disposal of non-current financial instruments		1	6
Disposal of available-for-sale financial assets		1,700	12,468
Acquisition of available-for-sale financial assets		-	(40,548)
Disposal of investments in subsidiaries, associates and joint ventures		52,702	4,700
Acquisition of investments in subsidiaries, associates and joint ventures		(22,163)	(4,650)
Disposal of property and equipment		6,412	10,292
Acquisition of property and equipment		(647,379)	(651,230)
Disposal of intangible assets		1,187	2,264
Acquisition of intangible assets		(292,524)	(116,999)
Net cash outflow from investing activities		(734,433)	(794,116)
Cash flows from financing activities			
Proceeds from borrowings and debentures		-	398,725
Repayments of borrowings and debentures		(581,985)	(184,540)
Settlement of derivative assets and liabilities, net		5,460	(33,193)
Decrease in finance lease liabilities		(16,502)	(19,885)
Net cash inflow(outflow) from financing activities		(593,027)	161,107
Effect of exchange rate change on cash and cash equivalents		(779)	(292)
Net increase(decrease) in cash and cash equivalents		(499,817)	199,792
Cash and cash equivalents			
Beginning of the period		1,602,397	1,126,991
End of the period		₩ 1,102,580	₩ 1,326,783

The accompanying notes are an integral part of these separate interim financial statements

KT Corporation

Notes to the Separate Interim Financial Statements

March 31, 2017 and 2016 (Unaudited), and December 31, 2016

1. General Information

KT Corporation (the "Company") commenced operations on January 1, 1982, when it was spun off from the Korea Communications Commission (formerly, the Korean Ministry of Information and Communications) to provide telephone services and to engage in the development of advanced communications services under the Act of Telecommunications of Korea. The address of the Company's registered office is 90, Buljeong-ro, Bundang-gu, Seongnam City, Gyeonggi Province, Korea.

On October 1, 1997, upon the announcement of the Act on the Management of Government-Invested Institutions and the Privatization Law, the Company became a government-funded institution under the Commercial Code of Korea.

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

On May 29, 1999, the Company issued 24,282,195 additional shares and issued American Depository Shares (ADS), representing new shares and government-owned shares, at the New York Stock Exchange. On July 2, 2001, the additional ADS representing 55,502,161 government-shares were issued at the New York Stock Exchange.

In 2002, the Company acquired the entire government-owned shares in accordance with the Korean Government's privatization plan. As of March 31, 2017, the Korean Government does not own any share in the Company.

2. Significant Accounting Policies

2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as issued by the Republic of Korea (Korean IFRS). The accompanying separate interim financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying separate interim financial statements.

The separate interim financial statements of the Company as of and for the three-month period ended March 31, 2017, have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These separate interim financial statements have been prepared in accordance with Korean IFRS which is effective or has been early adopted as of March 31, 2017.

KT Corporation

Notes to the Separate Interim Financial Statements

March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(1) New standards and amendments adopted by the Company

The Company newly applied the following amended and enacted standards and interpretations for the annual period beginning on January 1, 2017, and the application does not have a material impact on the separate interim financial statements.

- Amendment to Korean IFRS 1007 Statement of Cash Flows

Amendments to Korean IFRS 1007 *Statement of Cash Flows* require to provide disclosures that enable users to financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

- Amendment to Korean IFRS 1012 Income Tax

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

- Amendment to Korean IFRS 1112 Disclosures of Interests in Other Entities

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

(2) New standards and interpretations not yet adopted by the Company

New standards and interpretations issued, but not effective for the financial year beginning January 1, 2017, and not early adopted are enumerated below:

- Amendments to Korean IFRS 1102 Share-based Payment

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendment also clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The Company will apply the amendments for annual periods beginning on or after January 1, 2018, and early adoption is permitted. The Company does not expect the amendments to have a significant impact on the separate financial statements.

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Notes to the Separate Interim Financial Statements

March 31, 2017 and 2016 (Unaudited), and December 31, 2016

- Enactments to Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the enactments to have a significant impact on the separate interim financial statements.

- Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 are effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Company will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Company's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Company and macroeconomic variables. The following areas are likely to be affected in general with the implementation of Korean IFRS 1109. The Company is in preparation for analyzing the effects to the separate financial statement.

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Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(a) *Classification and Measurement of Financial Assets*

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Company's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

<i>Business model for the contractual cash flows characteristics</i>	Solely represent payments of principal and interest	All other
<i>Hold the financial asset for the collection of the contractual cash flows</i>	Measured at amortized cost ¹	Recognized at fair value through profit or loss ²
<i>Hold the financial asset for the collection of the contractual cash flows and trading</i>	Recognized at fair value through other comprehensive income ¹	
<i>Hold for trading</i>	Recognized at fair value through profit or loss	

¹ A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

² Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

As of March 31, 2017, the Company owns loans and receivables of ₩ 4,216,131 million, financial assets available-for-sales of ₩ 104,336 million.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As at March 31, 2017, the Company holds equity instruments of ₩ 97,136 million classified as financial assets available-for-sale.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss.

KT Corporation

Notes to the Separate Interim Financial Statements

March 31, 2017 and 2016 (Unaudited), and December 31, 2016

(b) Impairment: Financial Assets and Contract Assets

Korean IFRS 1109 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model under Korean IFRS 1039 and applies to:

- Financial assets measured at amortized cost
- Debt investments measured at fair value through other comprehensive income, and
- Certain loan commitments and financial guaranteed contracts.

And the Company could recognize credit losses early in accordance with Korean IFRS 1039. The Company holds debt instrument of ₩ 4,216,131 million (Loans and receivables of ₩ 4,216,131 million). For this assets, the Company provides loss allowance of ₩ 523,144 million.

(c) Hedge Accounting

Hedge accounting mechanics (fair value hedges, cash flow hedges and hedge of net investments in a foreign operations) required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, the new hedge accounting rules will align the accounting for hedging instruments more closely with the Company's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing two hedge effectiveness tests that are a prospective test to ensure that the hedging relationship is expected to be highly effective and a quantitative retrospective test (within range of 80-120 %) to ensure that the hedging relationship has been highly effective throughout the reporting period. As of March 31, 2017, the Company applies the hedge accounting to its assets, liabilities that amount to ₩ 74,654 million, ₩ 46,757 million respectively.

- Korean IFRS 1115 Revenue from Contracts with Customers

The Company will apply Korean IFRS 1115 Revenue from Contracts with Customers issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018. Earlier adoption is permitted under Korean IFRS. This standard replaces Korean IFRS 1018 Revenue, Korean IFRS 1011 Construction Contracts, Interpretation 2031 Revenue-Barter Transactions Involving Advertising Services, Interpretation 2113 Customer Loyalty Programs, Interpretation 2115 Agreements for the Construction of Real Estate and Interpretation 2118 Transfers of assets from customers. The Company must apply Korean IFRS 1115 Revenue from Contracts with Customers within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008 Accounting Policies, Changes in Accounting Estimates and Errors and apply simplified transition method with no restatement for completed contracts and other as of January 1, 2017.

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March 31, 2017 and 2016 (Unaudited), and December 31, 2016

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

The Company had organized a separate Task Force team since December 31, 2014 for preparation of implementing Korean IFRS 1115 *Revenue from Contracts with Customers*. Also the Company develops the internal control system and constructs accounting process system by analyzing the Company's revenue structure with accounting firm and computation expert. Korean IFRS 1115 will affect not only accounting method but also the general business practice including strategy for sales and business attitude. Therefore, the Company opens an orientation program for both Company's directors and employees, and periodically reports to the managements about plan for implementation and progress.

As of the March 31, 2017 the Company is analyzing the effects on the separate financial statements with the implementation of Korean IFRS 1115. The Company plans to perform detailed analysis on financial effects of applying the standard until March 31, 2018 and will disclose the result of the analysis in the notes on the separate financial statements as of March 31, 2018. The Company identified the following areas are likely to be affected in general.

(a) Identifying performance obligations

The Company provides telecommunication services and sells handsets as their main business. With the implementation of Korean IFRS 1115, the Company identifies performance obligations with a customer such as providing telecommunication services, selling handsets and other. The timing of revenue recognition depends on a performance obligation is satisfied at a point in time or over time. Where a performance obligation is satisfied over time, the related revenue is also recognized over time.

(b) Allocation the transaction price

With the implementation of Korean IFRS 1115, the Company allocates the transaction price to each performance obligation identified in the contract based on a relative stand-alone selling prices of the goods or services being provided to the customer. To allocate the transaction price to each performance obligation on a relative stand-alone price basis, the Company determines the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in

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March 31, 2017 and 2016 (Unaudited), and December 31, 2016

proportion to those stand-alone selling price. The stand-alone selling price is the price at which the Company would sell a promised good or service separately to the customer. The best evidence of a stand-alone selling price is the observable price of a good or service when the Company sells that good or service separately in similar circumstances and to similar customers.

(c) Incremental costs of obtaining a contract

The Company pays the commission fees when new customer subscribe for telecommunication services. The incremental costs of obtaining a contract are those commission fees that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

According to Korean IFRS 1115, the Company recognizes as an asset the incremental cost of obtaining contract and amortize it through the contract period. However, as a practical expedient, the Company may recognize the incremental costs of obtaining a contracts as an expense when incurred if the amortization period of the asset is one year or less.

2.2 Accounting Policies

Significant accounting policies and method of computation used in the presentation of the condensed separate interim financial statements are consistent with those of the previous financial year, except for the changes due to the application of amendment and enactments of standards described in Note 2.1.(1).

3. Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Actual results may differ from these estimates.

Significant accounting estimates and assumptions applied in the preparation of these condensed separate interim financial statements are the same as those that applied to the separate financial statements for the year ended December 31, 2016.

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Notes to the Separate Interim Financial Statements
March 31, 2017 and 2016 (Unaudited), and December 31, 2016

4. Financial Instruments by Category

Financial instruments by category as of March 31, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)

		March 31, 2017			
Financial assets	Loans and receivables	Derivatives used for hedge	Available -for- sale	Total	
Cash and cash equivalents	₩ 1,102,580	₩ -	₩ -	₩ 1,102,580	
Trade and other receivables	3,105,185	-	-	3,105,185	
Other financial assets	8,366	74,654	104,336	187,356	

(in millions of Korean won)

		March 31, 2017			
Financial liabilities	Liabilities at fair value through profit and loss	Derivatives used for hedge	Financial liabilities at amortized cost	Total	
Trade and other payables	₩ -	₩ -	₩ 4,785,407	₩ 4,785,407	
Borrowings	-	-	6,804,061	6,804,061	
Other financial liabilities	1,973	46,757	-	48,730	

(in millions of Korean won)

		December 31, 2016			
Financial assets	Loans and receivables	Derivatives used for hedge	Available -for- sale	Total	
Cash and cash equivalents	₩ 1,602,397	₩ -	₩ -	₩ 1,602,397	
Trade and other receivables	3,212,206	-	-	3,212,206	
Other financial assets	168,336	214,648	105,376	488,390	

(in millions of Korean won)

		December 31, 2016			
Financial liabilities	Liabilities at fair value through profit and loss	Derivatives used for hedge	Financial liabilities at amortized cost	Total	
Trade and other payables	₩ -	₩ -	₩ 5,316,830	₩ 5,316,830	
Borrowings	-	-	7,569,047	7,569,047	
Other financial liabilities	1,973	11,413	-	13,386	

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5. Trade and Other Receivables

Trade and other receivables as of March 31, 2017 and December 31, 2016, are as follows:

		March 31, 2017			
<i>(in millions of Korean won)</i>	Total amounts	Allowance for doubtful accounts	Present value discount	Carrying amount	
Current assets					
Trade receivables	₩ 2,541,286	₩ (423,095)	₩ (3,919)	₩ 2,114,272	
Other receivables	549,150	(99,730)	(195)	449,225	
Total	₩ 3,090,436	₩ (522,825)	₩ (4,114)	₩ 2,563,497	
Non-current assets					
Trade receivables	₩ 139,119	₩ (296)	₩ (8,179)	₩ 130,644	
Other receivables	434,267	(23)	(23,200)	411,044	
Total	₩ 573,386	₩ (319)	₩ (31,379)	₩ 541,688	
		December 31, 2016			
<i>(in millions of Korean won)</i>	Total amounts	Allowance for doubtful accounts	Present value discount	Carrying amount	
Current assets					
Trade receivables	₩ 2,734,325	₩ (433,072)	₩ (4,640)	₩ 2,296,613	
Other receivables	396,281	(102,504)	(229)	293,548	
Total	₩ 3,130,606	₩ (535,576)	₩ (4,869)	₩ 2,590,161	
Non-current assets					
Trade receivables	₩ 225,712	₩ (296)	₩ (10,874)	₩ 214,542	
Other receivables	433,376	(23)	(25,850)	407,503	
Total	₩ 659,088	₩ (319)	₩ (36,724)	₩ 622,045	

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Details of aging analysis of trade receivables as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Neither past due nor impaired	₩ 2,020,879	₩ 2,169,427
Past due and impaired		
Up to 6 months	364,056	476,765
6 months to 12 months	64,862	69,908
Over 12 months	218,510	228,423
	647,428	775,096
Less : Allowance for doubtful accounts	(423,391)	(433,368)
	224,037	341,728
Total	₩ 2,244,916	₩ 2,511,155

Details of other receivables as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Loans	₩ 68,608	₩ 73,682
Receivables	381,263	367,947
Accrued income	146,764	3,421
Refundable deposits	363,244	358,131
Others	143	397
Less : Allowance for doubtful accounts	(99,753)	(102,527)
Total	₩ 860,269	₩ 701,051

Details of aging analysis of other receivables as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Neither past due nor impaired	₩ 815,534	₩ 648,659
Past due and impaired		
Up to 6 months	44,273	59,282
6 months to 12 months	9,069	6,473
Over 12 months	91,145	89,164
	144,488	154,919
Less : Allowance for doubtful accounts	(99,753)	(102,527)
	44,735	52,392
Total	₩ 860,269	₩ 701,051

The maximum exposure of trade and other receivables to credit risk is the carrying amount of each class of receivables mentioned above as of March 31, 2017.

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6. Other Financial Assets and Liabilities

Other financial assets and liabilities as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017		December 31, 2016	
Other financial assets				
Derivatives used for hedge	₩	74,654	₩	214,648
Financial instruments ¹		8,366		168,366
Available-for-sale financial assets		104,336		105,376
Less: Non-current		<u>(127,053)</u>		<u>(198,777)</u>
Current	₩	<u>60,303</u>	₩	<u>289,613</u>
Other financial liabilities				
Financial liabilities at fair value through the profit and loss	₩	1,973	₩	1,973
Derivatives used for hedge		46,757		11,413
Less: Non-current		<u>(34,559)</u>		<u>(13,386)</u>
Current	₩	<u>14,171</u>	₩	<u>-</u>

¹ As of March 31, 2017, the Company's financial instruments amounting to ₩ 8,366 million (December 31, 2016: ₩ 8,366 million), which consist of certain proceeds from the disposal of Ustream Inc. deposited in an escrow account, checking account deposits, and deposits for Win-win Growth Cooperative loans, are subject to withdrawal restrictions.

Derivatives used for hedge as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017				December 31, 2016			
	Assets		Liabilities		Assets		Liabilities	
Currency swap ¹	₩	74,654	₩	46,757	₩	214,648	₩	11,413
Less: Non-current		<u>(16,412)</u>		<u>(32,586)</u>		<u>(87,095)</u>		<u>(11,413)</u>
Current	₩	<u>58,242</u>	₩	<u>14,171</u>	₩	<u>127,553</u>	₩	<u>-</u>

¹ The currency swap contract is entered to hedge bond payables' cash flow fluctuation risk arising from fluctuation of interest rate and exchange rate, and the maximum expected period exposed to cash flow fluctuation risk due to the forecast transactions subject to hedge is September 7, 2034.

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The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

The valuation gain and loss on the derivatives contracts for the three-month periods ended March 31, 2017 and 2016, are as follows:

(in millions of Korean won)

Type of Transaction	2017			2016		
	Valuation gain	Valuation loss	Other comprehensive Income ¹	Valuation gain	Valuation loss	Other comprehensive income ¹
Currency swap	₩ -	₩ 169,424	₩ (152,797)	₩ 11,821	₩ 30,717	₩ (14,937)

¹ Before adjustment of deferred income tax directly reflected in equity.

The Company recognized loss on valuation of ₩ 2,148 million (2016: gain on valuation of ₩ 225 million) for the three-month period ended March 31, 2017, as the ineffective portion of cash flow hedge in the statement of profit or loss.

Details of available-for-sale financial assets as of March 31, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)

	March 31, 2017	December 31, 2016
Marketable equity securities	₩ 94	₩ 93
Non-marketable equity securities	97,042	98,083
Debt securities	7,200	7,200
Less : Non-current	(104,336)	(105,376)
Current	₩ -	₩ -

Changes in available-for-sale financial assets for the three-month periods ended March 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017	2016
Beginning	₩ 105,376	₩ 75,170
Acquisition	-	40,629
Disposal	(1,041)	(3,523)
Valuation ¹	1	827
Ending	₩ 104,336	₩ 113,103

¹ The amounts before adjustment of deferred income tax directly reflected in equity.

The maximum exposure of debt securities of available-for-sale financial assets to credit risk is the carrying amount as of March 31, 2017.

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Available-for-sale financial assets are measured at fair value. However, non-marketable equity securities that do not have quoted market prices in an active market and the fair value of which cannot be reliably measured are recognized at cost. When the reasonably estimated recoverable amounts of non-marketable securities are less than the carrying amounts, impairment loss is recognized.

Investment in Korea Software Financial Cooperative amounting to ₩ 1,000 million is provided as collateral for payment guarantees provided by Korea Software Financial Cooperative (Note 16).

7. Inventories

Inventories as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017			December 31, 2016		
	Acquisition cost	Valuation allowance	Carrying amount	Acquisition cost	Valuation allowance	Carrying amount
Merchandise	₩ 345,772	₩ (58,526)	₩ 287,246	₩ 219,535	₩ (41,439)	₩ 178,096

Cost of inventories recognized as expenses for the three-month period ended March 31, 2017 amount to ₩ 731,794 million (2016: ₩ 708,117 million). Additionally, valuation loss on inventory amounts to ₩ 17,087 million (2016: ₩ 11,084 million) for the three-month period ended March 31, 2017.

8. Other Assets and Liabilities

Other assets and liabilities as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017		December 31, 2016	
Other assets				
Advance payments	₩	47,829	₩	59,170
Prepaid expenses		222,981		158,149
Less: Non-current		(25,086)		(26,507)
Current	₩	245,724	₩	190,812
Other liabilities				
Advance received	₩	93,647	₩	81,565
Withholdings		46,688		19,835
Unearned revenue		22,964		14,564
Less: Non-current		(20,262)		(21,305)
Current	₩	143,037	₩	94,659

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9. Assets Held for Sale

The Company decided to dispose certain portion of the cellphone installment receivables to Securitization Specialty Companies. As of March 31, 2017, the Company recognized securitized assets amounting to ₩ 242,800 million as assets held-for-sale.

10. Property and Equipment, Investment Properties, Intangible Assets and Lease

Changes in property and equipment for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Beginning, net	₩	11,961,193	₩	12,144,964
Acquisition and capital expenditure		267,977		223,550
Disposal and termination		(55,749)		(20,101)
Depreciation		(639,641)		(631,332)
Transfer from investment properties		3,273		1,347
Others		1,185		2,295
Ending, net	₩	<u>11,538,238</u>	₩	<u>11,720,723</u>

Changes in investment properties for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Beginning, net	₩	662,985	₩	683,511
Depreciation		(7,866)		(7,909)
Transfer to property and equipment		(3,273)		(1,347)
Ending, net	₩	<u>651,846</u>	₩	<u>674,255</u>

Details of investment properties provided as collateral as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017			
Collateral	Carrying amount	Secured amount	Related account	Related amount
Building	₩ 378,194	₩ 66,732	Deposits received	₩ 56,895

<i>(in millions of Korean won)</i>	December 31, 2016			
Collateral	Carrying amount	Secured amount	Related account	Related amount
Building	₩ 384,081	₩ 66,094	Deposits received	₩ 56,472

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Changes in intangible assets for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Beginning, net	₩	2,337,549	₩	1,804,083
Acquisition and capital expenditure		72,777		11,904
Disposal and termination		(1,813)		(10,106)
Amortization		(130,565)		(123,171)
Ending, net	₩	2,277,948	₩	1,682,710

The carrying amount of goodwill not amortized due to indefinite useful lives is ₩ 65,057 million as of March 31, 2017 (December 31, 2016: ₩ 65,057 million). The carrying amount of memberships not amortized due to indefinite useful lives is ₩ 66,463 million as of March 31, 2017 (December 31, 2016: ₩ 66,530 million).

The Company's non-cancellable lease arrangements as of March 31, 2017, are as follows:

(a) The Company as a Lessee

Finance Lease

Details of finance lease assets as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017		December 31, 2016	
Acquisition costs	₩	293,832	₩	291,708
Less: Accumulated depreciation		(109,176)		(99,421)
Net balance	₩	184,656	₩	192,287

As of March 31, 2017, the Company recognized finance lease assets as other property and equipment. The related depreciation for the three-month periods ended March 31, 2017 and 2016 amounts to ₩ 14,067 million and ₩ 12,867 million, respectively.

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Details of future minimum lease payments as of March 31, 2017 and December 31, 2016, under finance lease contracts are summarized below:

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Total amount of minimum lease payments		
Within one year	₩ 79,216	₩ 79,551
From one year to five years	122,042	131,797
Total	<u>₩ 201,258</u>	<u>₩ 211,348</u>
Unrealized interest expense	<u>₩ 27,495</u>	<u>₩ 30,719</u>
Net amount of minimum lease payments		
Within one year	₩ 64,743	₩ 64,008
From one year to five years	109,020	116,621
Total	<u>₩ 173,763</u>	<u>₩ 180,629</u>

Operating Lease

Details of future minimum lease payments as of March 31, 2017 and December 31, 2016, under operating lease contracts are summarized below:

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Within one year	₩ 98,742	₩ 98,021
From one year to five years	260,257	267,437
Over five years	11,457	16,549
Total	<u>₩ 370,456</u>	<u>₩ 382,007</u>

Operating lease expenses incurred for the three-month periods ended March 31, 2017 and 2016, amounted to ₩ 26,675 million and ₩ 25,655 million, respectively.

11. Investments in Subsidiaries, Associates and Joint ventures

Carrying amounts of investments in subsidiaries, associates and joint ventures as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Subsidiaries	₩ 3,394,582	₩ 3,373,731
Associates and joint ventures	216,175	265,125
Total	<u>₩ 3,610,757</u>	<u>₩ 3,638,856</u>

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Investments in subsidiaries as of March 31, 2017 and December 31, 2016, are as follows:

	Location	Percentage of ownership (%) as of March 31, 2017	Carrying amount	
			March 31, 2017	December 31, 2016
<i>(in millions of Korean won)</i>				
KT Estate Inc.	Korea	100.0%	₩ 1,084,522	₩ 1,084,522
KT Sat Co., Ltd.	Korea	100.0%	390,530	390,530
KTCS Corporation ¹	Korea	7.6%	6,427	6,427
KTIS Corporation ¹	Korea	30.1%	30,633	30,633
KT Skylife Co., Ltd.	Korea	50.3%	311,696	311,696
BC Card Co., Ltd.	Korea	69.5%	633,004	633,004
KT M&S Co., Ltd.	Korea	100.0%	124,564	124,564
KT Hitel Co., Ltd.	Korea	63.7%	120,078	120,078
KT Belgium	Belgium	100.0%	86,432	69,461
KT Powertel Co., Ltd. ²	Korea	44.8%	37,419	37,419
Genie Music Corporation ³	Korea	49.9%	37,417	37,417
KTSC Dutch B.V	Netherlands	100.0%	55,847	55,847
KT Telecop Co., Ltd.	Korea	86.8%	26,045	26,045
KT Submarine Co., Ltd. ²	Korea	39.3%	24,370	24,370
Nasmedia Co., Ltd. ⁴	Korea	42.8%	23,051	23,051
KT New Business Fund No.1	Korea	90.9%	8,112	8,112
KT Strategic Investment Fund No.1	Korea	90.9%	20,000	20,000
KTDS Co., Ltd.	Korea	95.3%	19,616	19,616
KTSB Data Service	Korea	51.0%	18,870	18,870
KT Strategic Investment Fund No.2	Korea	90.9%	20,000	20,000
KT Sports	Korea	66.0%	6,600	6,600
KT M mobile Co., Ltd.	Korea	100.0%	200,000	200,000
KT Service Bukbu	Korea	67.3%	7,089	7,089
KT Service Nambu	Korea	76.4%	10,155	10,155
KT Strategic Investment Fund No.3	Korea	86.7%	6,500	6,500
N SEARCH MARKETING ⁵	Korea	33.3%	20,000	20,000
Others	-	-	65,605	61,725
Total			₩ 3,394,582	₩ 3,373,731

¹ At the end of the reporting period, although sum of percentage of ownership of the Company and its subsidiaries for KTCS Corporation and KTIS Corporation is 30.9%, 30.1% less than 50% ownership in this entity, this entity is deemed to be a Company's subsidiary due to the dispersion of the non-controlling interests and voting patterns at the shareholders' meetings in the past.

² At the end of the reporting period, although the Company owns less than 50% ownership, these entities are deemed to be the Company's subsidiaries due to the dispersion of the non-controlling interests and voting patterns at the shareholders' meetings in the past.

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³ At the end of the reporting period, although the Company owns less than 50% of ownership, this entity is deemed to be the Company's subsidiary as the Company holds potential voting rights based on the share purchase agreement with other investors.

⁴ At the end of the reporting period, this entity is deemed to be the Company's subsidiary, although the Company owns less than 50% ownership, the Company can exercise voting rights over 50% based on agreement between shareholders.

⁵ At the end of the reporting period, this entity is deemed to be the Company's subsidiary, as the Nasmedia Co., Ltd., holds ownership of 66.7% the Company and subsidiary holds ownership of 100%.

Investments in associates and joint ventures as of March 31, 2017 and December 31, 2016, are as follows:

	Location	Percentage of ownership (%) as of March 31, 2017	Carrying amount	
			March 31, 2017	December 31, 2016
<i>(in millions of Korean won)</i>				
KIF Investment Fund	Korea	33.3%	₩ 115,636	₩ 115,636
KT Wibro Infra Co., Ltd.	Korea	-	-	52,200
K-REALTY CR REIT 1 ¹	Korea	16.1%	30,000	30,000
Mongolian Telecommunications	Mongolia	40.0%	11,135	11,135
KT-SB Venture Investment Fund ²	Korea	50.0%	7,505	7,505
Boston Global Film & Contents Fund L.P.	Korea	27.4%	7,645	7,645
QTT Global (Group) Company Limited	China	25.0%	12,746	12,746
KT-CKP New Media Investment Fund	Korea	49.7%	4,500	4,500
Others			27,008	23,758
Total			₩ 216,175	₩ 265,125

¹ At the end of the reporting period, although the Company owns less than 20% ownership, the equity method accounting has been applied as the Company has the significant influence over the operating and financial policies of those entities.

² At the end of the reporting period, although the Company owns a 50% ownership, the equity method accounting has been applied as the Company cannot participate in determining the operating and financial policies of those entities.

Changes in investments in subsidiaries, associates and joint ventures for the three-month periods ended March 31, 2017 and 2016, are as follows:

	2017	2016
<i>(in millions of Korean won)</i>		
Beginning	₩ 3,638,856	₩ 3,541,837
Acquisition	24,101	5,684
Disposal	(52,200)	(4,700)
Ending	₩ 3,610,757	₩ 3,542,821

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Marketable investments in subsidiaries, associates and joint ventures as of March 31, 2017 and December 31, 2016, are as follows:

	March 31, 2017		
	Number of shares	Carrying amount (in millions of Korean won)	Fair value (in millions of Korean won)
KT Skylife Co., Ltd.	23,908,000	₩ 311,696	₩ 394,482
KT Hitel Co., Ltd.	22,750,000	120,078	163,345
KT Submarine Co., Ltd.	8,085,000	24,370	41,072
Nasmedia Co., Ltd.	3,742,406	23,051	146,141
Genie Music Corporation	20,904,514	37,417	98,983
KTCS Corporation	3,177,426	6,427	8,118
KTIS Corporation	10,196,190	30,633	34,718
Mongolian Telecommunications	10,348,111	11,135	2,499
Total		₩ 564,807	₩ 889,358

	December 31, 2016		
	Number of shares	Carrying amount (in millions of Korean won)	Fair value (in millions of Korean won)
KT Skylife Co., Ltd.	23,908,000	₩ 311,696	₩ 413,608
KT Hitel Co., Ltd.	22,750,000	120,078	148,785
KT Submarine Co., Ltd.	8,085,000	24,370	39,859
Nasmedia Co., Ltd.	3,742,406	23,051	147,825
Genie Music Corporation	20,904,514	37,417	75,361
KTCS Corporation	3,177,426	6,427	7,880
KTIS Corporation	10,196,190	30,633	37,726
Mongolian Telecommunications	10,348,111	11,135	3,940
Total		₩ 564,807	₩ 874,984

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12. Trade and Other payables

Details of trade and other payables as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017		December 31, 2016	
Current Liabilities				
Accounts payable	₩	896,153	₩	802,251
Other payables		2,946,369		3,378,841
Total	₩	<u>3,842,522</u>	₩	<u>4,181,092</u>
Non-Current Liabilities				
Accounts payable	₩	265	₩	1,499
Other payables		942,620		1,134,239
Total	₩	<u>942,885</u>	₩	<u>1,135,738</u>

Details of other payables as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017		December 31, 2016	
Non-trade payable	₩	2,293,783	₩	2,973,345
Accrued expenses		642,501		609,530
Operating deposits		636,716		601,652
Others		315,989		328,553
Less: Non-current		<u>(942,620)</u>		<u>(1,134,239)</u>
Current	₩	<u>2,946,369</u>	₩	<u>3,378,841</u>

13. Borrowings

Details of borrowings as of March 31, 2017 and December 31, 2016, are as follows:

Debentures

<i>(in millions of Korean won and thousands of foreign currencies)</i>			March 31, 2017		December 31, 2016	
Type	Maturity	Annual interest rates	Foreign currency	Korean won	Foreign currency	Korean won
MTNP notes ¹	Sept. 7, 2034	6.50%	USD 100,000	111,610	USD 100,000	120,850
MTNP notes	Jan. 20, 2017	-	-	-	USD 350,000	422,975
FR notes ²	Aug. 28, 2018	LIBOR(3M)+1.15%	USD 300,000	334,830	USD 300,000	362,550
MTNP notes	Apr. 22, 2017	1.75%	USD 650,000	725,465	USD 650,000	785,525
MTNP notes	Apr. 22, 2019	2.63%	USD 350,000	390,635	USD 350,000	422,975
MTNP notes	Jan. 29, 2018	0.86%	JPY 6,800,000	67,899	JPY 6,800,000	70,503
MTNP notes	Feb. 23, 2018	0.48%	JPY 15,000,000	149,778	JPY 15,000,000	155,522
MTNP notes	July 18, 2026	2.50%	USD 400,000	446,440	USD 400,000	483,400

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

Type	Maturity	Annual interest rates	March 31, 2017		December 31, 2016	
			Foreign currency	Korean won	Foreign currency	Korean won
The 173-2nd Public bond	Aug. 6, 2018	6.62%	-	100,000	-	100,000
The 177-3rd Public bond	Feb. 9, 2017	-	-	-	-	170,000
The 179th Public bond	Mar. 29, 2018	4.47%	-	260,000	-	260,000
The 180-2nd Public bond	Apr. 26, 2021	4.71%	-	380,000	-	380,000
The 181-2nd Public bond	Aug. 26, 2018	3.99%	-	90,000	-	90,000
The 181-3rd Public bond	Aug. 26, 2021	4.09%	-	250,000	-	250,000
The 182-2nd Public bond	Oct. 28, 2021	4.31%	-	100,000	-	100,000
The 183-2nd Public bond	Dec. 22, 2021	4.09%	-	90,000	-	90,000
The 183-3rd Public bond	Dec. 22, 2031	4.27%	-	160,000	-	160,000
The 184-1st Public bond	Apr. 10, 2018	2.74%	-	120,000	-	120,000
The 184-2nd Public bond	Apr. 10, 2023	2.95%	-	190,000	-	190,000
The 184-3rd Public bond	Apr. 10, 2033	3.17%	-	100,000	-	100,000
The 185-1st Public bond	Sept. 16, 2018	3.46%	-	200,000	-	200,000
The 185-2nd Public bond	Sept. 16, 2020	3.65%	-	300,000	-	300,000
The 186-1st Public bond	June 26, 2017	2.86%	-	120,000	-	120,000
The 186-2nd Public bond	June 26, 2019	3.08%	-	170,000	-	170,000
The 186-3rd Public bond	June 26, 2024	3.42%	-	110,000	-	110,000
The 186-4th Public bond	June 26, 2034	3.70%	-	100,000	-	100,000
The 187-1st Public bond	Sept. 2, 2017	2.69%	-	110,000	-	110,000
The 187-2nd Public bond	Sept. 2, 2019	2.97%	-	220,000	-	220,000
The 187-3rd Public bond	Sept. 2, 2024	3.31%	-	170,000	-	170,000
The 187-4th Public bond	Sept. 2, 2034	3.55%	-	100,000	-	100,000
The 188-1st Public bond	Jan. 29, 2020	2.26%	-	160,000	-	160,000
The 188-2nd Public bond	Jan. 29, 2025	2.45%	-	240,000	-	240,000
The 188-3rd Public bond	Jan. 29, 2035	2.71%	-	50,000	-	50,000
The 189-1st Public bond	Jan. 27, 2019	1.76%	-	100,000	-	100,000
The 189-2nd Public bond	Jan. 27, 2021	1.95%	-	130,000	-	130,000
The 189-3rd Public bond	Jan. 27, 2026	2.20%	-	100,000	-	100,000
The 189-4th Public bond	Jan. 27, 2036	2.35%	-	70,000	-	70,000
				6,516,657		7,284,300
Less: Current portion				(1,432,433)		(1,607,571)
Discount on bonds				(17,777)		(20,434)
Net				₩ 5,066,447		₩ 5,656,295

¹ As of March 31, 2017, the Company issued notes in the amount of USD 100 million with fixed interest rates under Medium Term Note Program ("MTNP") registered in the Singapore Stock Exchange, which allowed issuance of notes of up to USD 2,000 million. However, the program has been invalid since 2007.

² Libor (3M) is approximately 1.148% as of March 31, 2017.

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Long-term Borrowings

(in millions of Korean won)

Financial institution	Type	Maturity	Annual interest rates	March 31, 2016	December 31, 2016
Export-Import Bank of Korea	Inter-Korean Cooperation Fund ¹	July 11, 2026	1.50%	5,181	5,181
NH Investment & Securities Co., Ltd.	Long-term commercial papers	Feb. 18, 2019	3.17%	300,000	300,000
				<u>305,181</u>	<u>305,181</u>
Less: Current portion				<u>(987)</u>	<u>(493)</u>
	Net			<u>₩ 304,194</u>	<u>₩ 304,688</u>

¹ Inter-Korean Cooperation Fund is repayable in installments over 13 years after a seven-year grace period.

Repayment schedule of the Company's debentures and borrowings as of March 31, 2017, is as follows:

(in millions of Korean won)	Bonds			Borrowings	
	Korean won	In foreign currency	Sub-total	In local currency	Total
Apr. 1, 2017~Mar. 31, 2018	₩ 490,000	₩ 943,142	₩ 1,433,142	₩ 987	₩ 1,434,129
Apr. 1, 2018~Mar. 31, 2019	610,000	334,830	944,830	300,493	1,245,323
Apr. 1, 2019~Mar. 31, 2020	550,000	390,635	940,635	493	941,128
Apr. 1, 2020~Mar. 31, 2021	430,000	-	430,000	493	430,493
Thereafter	<u>2,210,000</u>	<u>558,050</u>	<u>2,768,050</u>	<u>2,715</u>	<u>2,770,765</u>
	<u>₩ 4,290,000</u>	<u>₩ 2,226,657</u>	<u>₩ 6,516,657</u>	<u>₩ 305,181</u>	<u>₩ 6,821,838</u>

Carrying amount and fair value of the Company's debentures and borrowings as of March 31, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	March 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Debentures	₩ 6,498,880	₩ 6,551,155	₩ 7,263,866	₩ 7,327,085
Long-term borrowings (Including the current portion)	305,181	305,016	305,181	305,001
	<u>₩ 6,804,061</u>	<u>₩ 6,856,171</u>	<u>₩ 7,569,047</u>	<u>₩ 7,632,086</u>

The fair value of debentures and long-term borrowings are calculated by discounting the expected future cash flows at weighted average borrowing rate. The weighted average borrowing rate is approximately 3.39% as of March 31, 2017 (December 31, 2016: 3.38%).

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14. Provisions

Changes in provisions for the three-month periods ended March 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017			
	Litigation	Restoration cost	Others	Total
Beginning	₩ 18,235	₩ 92,388	₩ 73,772	₩ 184,395
Increase (transfer)	-	1,414	1,385	2,799
Usage	(40)	(397)	(1,437)	(1,874)
Reversal	-	(384)	-	(384)
Ending	<u>₩ 18,195</u>	<u>₩ 93,021</u>	<u>₩ 73,720</u>	<u>₩ 184,936</u>
Current	₩ 18,195	-	₩ 73,720	₩ 91,915
Non-current	-	93,021	-	93,021

(in millions of Korean won)

	2016			
	Litigation	Restoration cost	Others	Total
Beginning	₩ 17,524	₩ 82,190	₩ 83,639	₩ 183,353
Increase (transfer)	-	2,200	4,757	6,957
Usage	(20)	(525)	(7,087)	(7,632)
Reversal	(11)	(168)	-	(179)
Ending	<u>₩ 17,493</u>	<u>₩ 83,697</u>	<u>₩ 81,309</u>	<u>₩ 182,499</u>
Current	₩ 17,493	-	₩ 81,309	₩ 98,802
Non-current	-	83,697	-	83,697

15. Net Defined Benefit Liabilities

The amounts recognized in the statements of financial position as of March 31, 2017 and December 31, 2016, are determined as follows:

(in millions of Korean won)

	March 31, 2017	December 31, 2016
Present value of defined benefit obligations	₩ 1,313,295	₩ 1,285,300
Fair value of plan assets	(995,684)	(1,000,369)
Liabilities	<u>₩ 317,611</u>	<u>₩ 284,931</u>

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Changes in the defined benefit obligations for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Beginning	₩	1,285,300	₩	1,231,234
Current service cost		30,536		31,231
Interest expense		7,612		7,538
Benefits paid		<u>(10,153)</u>		<u>(7,562)</u>
Ending	₩	<u>1,313,295</u>	₩	<u>1,262,441</u>

Changes in the fair value of plan assets for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Beginning	₩	1,000,369	₩	801,298
Interest income		5,925		4,906
Remeasurements of plan assets		(523)		195
Benefits paid		<u>(10,087)</u>		<u>(7,180)</u>
Ending	₩	<u>995,684</u>	₩	<u>799,219</u>

Amounts recognized in the statements of profit or loss for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Current service cost	₩	30,536	₩	31,231
Net interest expense		1,687		2,632
Transfer out		<u>(2,545)</u>		<u>(2,855)</u>
Total expense	₩	<u>29,678</u>	₩	<u>31,008</u>

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16. Commitments and Contingencies

As of March 31, 2017, major commitments with local financial institutions are as follows:

(in millions of Korean won

foreign currencies in thousands)

	Financial institution	Currency	Limit	Used amount
Bank overdraft	Kookmin Bank and others	KRW	1,750,000	-
Commercial papers	KEB Hana Bank and others	KRW	520,000	300,000
Inter-Korean Cooperation Fund	Export-Import Bank of Korea	KRW	37,700	5,181
Green energy factoring	Shinhan Bank	KRW	70	70
Collateralized loan on electronic accounts receivable	Shinhan Bank and others	KRW	490,000	8,164
Plus electronic notes payable	Industrial Bank of Korea	KRW	50,000	52
Fx forward trading commitment	Shinhan Bank	USD	11,500	-
		KRW	2,847,700	313,467
	Total	USD	11,500	-

As of March 31, 2017, payment guarantees received from financial institutions are as follows:

(in millions of Korean won

and foreign currencies in thousands)

	Financial institution	Currency	Limit
Comprehensive line of credit	KEB Hana Bank	KRW	15,000
Guarantee for advance received	Export-Import Bank of Korea	USD	7,414
Bid guarantee	Korea Software Financial Cooperative	KRW	117,993
Contract and warranty guarantee	Korea Software Financial Cooperative	KRW	252,068
Prepayment and other guarantee	Korea Software Financial Cooperative	KRW	55,806
General guarantee	Shinhan Bank	KRW	100
Guarantees for bonds payable in foreign currency	Kookmin Bank and others	USD	58,075
	KEB Hana Bank	PLN ¹	23,000
Performance guarantee	Seoul Guarantee Insurance	KRW	21,300
Guarantee for licensing	Seoul Guarantee Insurance	KRW	3,790
Insurance of guarantee for security deposit	Seoul Guarantee Insurance	KRW	20,120
Guarantee for deposits	Seoul Guarantee Insurance	KRW	2,085
Auction guarantee	Seoul Guarantee Insurance	KRW	307
		KRW	488,569
	Total	USD	65,489
		PLN ¹	23,000

¹ Poland Zloty.

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The Company is jointly and severally obligated with KT Sat Co., Ltd. to pay KT Sat Co., Ltd.'s liabilities prior to spin-off. As of March 31, 2017, the Company and KT Sat Co., Ltd. are jointly and severally liable for reimbursement of ₩ 5,733 million.

During the three-month period ended March 31, 2017, the Company made agreements with the Securitization Specialty Companies (2017: Giga LTE Thirty first Securitization Specialty Co., Ltd., 2016: Olleh KT Twenty fifth to Twenty sixth Securitization Specialty Co., Ltd. and Giga LTE twenty seventh to thirtieth), and disposed its trade receivables related to handset sales. The Company also made asset management agreements with each securitization specialty company and will receive the related management fees.

As of March 31, 2017, the Company is a defendant in 159 lawsuits with the total claimed amount of ₩ 52,804 million. As of March 31, 2017, litigation provisions of ₩ 18,195 million for various pending lawsuits and unasserted claims are recorded as liabilities for potential loss in the ordinary course of business. The final outcome of the case cannot be estimated at the end of the reporting period.

According to the financial and other covenants included in certain debentures and borrowings, the Company is required to maintain certain financial ratios such as debt-to-equity ratio, use the funds for the designated purpose and report to the creditors periodically. The covenant also contains restriction on provision of additional collateral and disposal of certain assets.

17. Retained Earnings

Details of retained earnings as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017	December 31, 2016
Legal reserve ¹	₩ 782,249	₩ 782,249
Voluntary reserves ²	4,651,362	4,651,362
Unappropriated retained earnings	3,808,492	3,722,593
Total	₩ 9,242,103	₩ 9,156,204

¹ The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock with the approval of the Company's Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

² The provision of research and development of human is separately accumulated with tax reserve fund during earned surplus disposal by Tax Reduction and Exemption Control Act of Korea. Reversal of this provision can be paid out as dividends according to related tax law.

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18. Other Components of Equity

As of March 31, 2017 and December 31, 2016, the Company's other components of equity are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017		December 31, 2016	
Treasury stock	₩	(859,789)	₩	(859,789)
Loss on disposal of treasury stock		-		(2,312)
Share-based payments		7,202		5,762
Other		(188,012)		(188,012)
Total	₩	(1,040,599)	₩	(1,044,351)

Details of treasury stock, as of March 31, 2017 and December 31, 2016, are as follows:

	March 31, 2017		December 31, 2016	
Number of shares		16,140,165		16,140,165
Amounts <i>(in millions of Korean won)</i>	₩	859,789	₩	859,789

Treasury stock is expected to be used for the stock compensation for the Company's directors and employees, and other purposes.

19. Operating Revenues

Operating revenues for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Services provided	₩	3,594,074	₩	3,643,904
Sales of goods		567,344		556,952
Total	₩	4,161,418	₩	4,200,856

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20. Operating Expenses

Operating expenses for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Salaries and wages	₩ 497,754	₩ 500,466
Depreciation	637,230	628,362
Amortization of intangible assets	127,615	118,231
Commissions	352,876	361,036
Interconnection charges	178,789	192,216
International interconnection fee	61,691	55,108
Purchase of inventories	858,031	739,027
Changes of inventories	(109,150)	(19,826)
Sales commission	493,213	501,456
Purchase of service	141,424	139,929
Purchase of contents	106,136	114,589
Utilities	70,448	76,109
Taxes and dues	57,505	57,646
Rent	103,731	106,216
Insurance premium	10,652	54,588
Installation fee	95,928	95,775
Advertising expenses	34,495	41,807
Research and development expenses	41,865	43,534
Others	82,262	107,360
Total	₩ 3,842,495	₩ 3,913,629

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Details of employee benefits for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Short-term employee benefits	₩ 454,254	₩ 448,983
Post-employment benefits (Defined benefit plan)	29,678	31,008
Post-employment benefits (Defined contribution plan)	9,308	13,061
Post-employment benefits (Others)	3,074	7,377
Share-based payment	1,440	37
Total	₩ 497,754	₩ 500,466

21. Other Income and Expenses

Other income for the three-month periods ended March 31, 2017 and 2016, consists of:

<i>(in millions of Korean won)</i>	2017	2016
Gain on disposal of property and equipment	₩ 5,475	₩ 9,494
Gain on disposal of intangible assets	402	649
Compensation on property and equipment	24,676	14,971
Dividends income	135,143	150,131
Gain on government subsidies	3,312	4,273
Others	11,007	7,472
Total	₩ 180,015	₩ 186,990

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Other expenses for the three-month periods ended March 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017		2016	
Loss on disposal of property and equipment	₩	54,550	₩	19,343
Loss on disposal of intangible assets		1,027		7,406
Donation		9,924		8,118
Others		14,424		13,903
Total	₩	79,925	₩	48,770

22. Finance Income and Costs

Finance income for the three-month periods ended March 31, 2017 and 2016, is as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Interest income	₩	12,181	₩	16,142
Gain on foreign currency transactions		17,163		4,712
Gain on foreign currency translation		178,942		37,948
Gain on settlement of derivatives		-		8,329
Gain on valuation of derivatives		-		11,821
Others		677		11,202
Total	₩	208,963	₩	90,154

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Finance costs for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Interest expenses	₩ 71,023	₩ 90,248
Loss on Foreign currency transactions	2,868	10,697
Loss on foreign currency translation	8,661	19,323
Loss on settlement of derivatives	15,002	-
Loss on valuation of derivatives	169,424	30,717
Loss on disposal of trade receivable	2,713	3,113
Others	15	53
Total	₩ 269,706	₩ 154,151

23. Earnings per Share

Basic earnings per share is calculated by dividing the profit for the period by the weighted average number of ordinary shares outstanding during the period, excluding ordinary shares purchased by the Company and held as treasury stock.

Basic earnings per share for the three-month periods ended March 31, 2017 and 2016, is calculated as follows:

	2017	2016
Profit attributable to ordinary shares	₩ 284,585	₩ 278,618
<i>(in millions of Korean won)</i>		
Weighted average number of ordinary shares outstanding	244,971,643	244,845,177
Basic earnings per share	1,162	1,138
<i>(in Korean won)</i>		

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has dilutive potential ordinary shares from other share-based payments.

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Diluted earnings per share for the three-month periods ended March 31, 2017 and 2016, is calculated as follows:

	2017		2016
Profit attributable to ordinary shares <i>(in millions of Korean won)</i>	₩ 284,585		₩ 278,618
Adjusted net income attributable to ordinary shares <i>(in millions of Korean won)</i>	284,585		278,618
Number of dilutive potential ordinary shares outstanding	-		-
Weighted-average number of ordinary shares outstanding and dilutive ordinary shares	244,971,643		244,845,177
Diluted earnings per share <i>(in Korean won)</i>	1,162		1,138

Diluted earnings per share is calculated by dividing adjusted profit for the period by the sum of the number of ordinary shares and dilutive potential ordinary shares. Certain other share-based payments have no dilutive effect and are excluded from the calculation of diluted earnings per share.

24. Cash Generated from Operations

Cash flows from operating activities for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016
1. Profit for the period	₩ 284,585		₩ 278,618
2. Adjustments for			
Income tax expense	73,685		82,832
Interest income	(12,181)		(16,142)
Interest expense	71,023		90,248
Dividends income	(135,143)		(150,330)
Depreciation	647,507		639,241
Amortization of intangible assets	130,565		123,171
Provisions for severance benefits (defined benefits)	32,223		33,863
Impairment loss on trade receivables	8,991		27,942
Gain on disposal of investments in subsidiaries, associates and joint ventures	(502)		-
Loss on disposal of property and equipment	49,075		9,849
Loss on disposal of intangible assets	625		6,757
Gain on foreign currency translation	(170,281)		(18,625)
Gain on valuation of derivatives	184,426		10,567
Gain on disposal of available-for-sale securities	(659)		(11,004)
Others	(216)		11,176
3. Changes in operating assets and liabilities			

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Decrease (increase) in trade receivables	3,159	(6,793)
Decrease (increase) in other receivables	(30,946)	66,792
Increase in current other assets	(68,869)	(74,437)
Decrease in non-current other assets	1,420	76
Increase in inventories	(126,257)	(31,299)
Increase(decrease) in trade payables	101,311	(127,995)
Decrease in other payables	(172,145)	(68,662)
Increase in current other liabilities	47,871	58,389
Increase(decrease) in non-current other liabilities	(1,042)	9,399
Decrease in provisions	(489)	(3,068)
Decrease in deferred revenue	(20,556)	(32,728)
Post-employment benefits paid (defined benefits)	(38,252)	(6,914)
Decrease in plan assets	30,084	6,755
4. Cash generated from operations(1+2+3)	₩ 889,012	₩ 907,678

Significant transactions not affecting cash flows for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Reclassification of borrowings	₩	485,866	₩	579,502
Transfer of construction-in-progress to property and equipment		264,726		247,431
Decrease in accounts payable of property and equipment		(398,813)		(439,156)
Decrease in accounts payable of intangible assets		(222,388)		(105,095)
Decrease in accounts payable of defined benefit liabilities		(28,101)		649
Decrease in accounts payable of plan assets		(19,997)		426
Increase in accounts payable of dividends		195,977		122,425
Reclassification of trade receivable to assets held for sale		245,383		280,702

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25. Related Party Transactions

The list of related parties of the Company as of March 31, 2017, is as follows:

Relationship	Name
Subsidiaries	KT Hitel Co., Ltd., Ktcs Corporation, Ktis Corporation, KT Service Bukbu, KT Service Nambu, KT Powertel Co., Ltd., KT Linkus Co., Ltd., KT Telecop Co., Ltd., KT Innoedu Co., Ltd., KTDS Co., Ltd., Nasmedia Co., Ltd., KT M Hows Co., Ltd., KT M&S Co., Ltd., Genie Music Corporation, KT Estate Inc., KT Skylife Co., Ltd., H&C Network, KTSB Data service, KT Sat Co., Ltd., KT Submarine Co., Ltd., KT Sports Co., Ltd., KT New Business Fund No.1, KTC Media Contents Fund 2, KT Strategic Investment Fund No.1, KT Strategic Investment Fund No.2, Genie Music Contents Fund 1, Korea Telecom America, Inc., Korea Telecom Japan Co., Ltd., Korea Telecom China Co., Ltd., KT Dutch B.V., PT. KT Indonesia, KT AMC, KT Commerce Inc., BC Card Co., Ltd., VP Inc., BC Card China Co., Ltd., Skylife TV Co., Ltd., Initech Co., Ltd., Smartro Co., Ltd., East Telecom LLC, Super iMax LLC, NEXR Co., Ltd., KT Rwanda Networks Ltd., KT Belgium, KT ORS Belgium, KT-Michigan Global Contents Fund, Autopion Co., Ltd., KBTO sp.zo.o, Africa Olleh Services Ltd., KT M mobile, KT investment Co., Ltd, Ngenebio, PT. BCCard Asia Pacific, Smart Channel Co., Ltd., Whowho&Company Co., Ltd., KT Hongkong Telecommunications Co., Ltd., K-Realty US REIT 1, KT Strategic Investment Fund No.3, N SEARCH MARKETING Corp.
Associates and joint ventures	Korea Information & Technology Investment Fund, KT Wibro Infra Co., Ltd., K-REALTY CR REIT 1, Mongolian Telecommunications, KT-SB Venture Investment Fund, Boston Global Film & Contents Fund L.P., QTT Global (Group) Company Limited, CU Industrial Development Co., Ltd, HooH Healthcare Inc., KD Living, Inc., ChungHo EZ-Cash Co., Ltd., MOS GS Co., Ltd., MOS Daegu Co., Ltd., MOS Chungcheong Co., Ltd., MOS Gangnam Co., Ltd., MOS GB Co., Ltd., MOS BS Co., Ltd., MOS Honam Co., Ltd., Oscar Ent. Co., Ltd., Texno Pro Sistem, KT-CKP New Media Investment Fund, LoginD Co., Ltd., K-REALTY CR-REIT 6, ISU-kth Contents Fund L.P., Daiwon Broadcasting Co., Ltd., KT-DSC creative economy youth start-up investment fund, Gyeonggi-KT Green Growth Fund, Korea Electronic Vehicle Charging Service, PT.MitraTransaksiIndonesia, K-REALTY RENTAL HOUSING REIT 2, AI RESEARCH INSTITUTE, kt-ibkc future investment fund 1, Gyeonggi-KT Yoojin Superman Fund, FUNDA Co., Ltd
Others ¹	kt ens corporation, K-REALTY REIT I

¹ Although the entity is not the related party of the Company in accordance with Korean IFRS 1024, the entity belongs to a large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

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Outstanding balances of receivables and payables in relation to transactions with related parties as of March 31, 2017 and December 31, 2016, are as follows:

	March 31, 2017				
	Receivables			Payables	
	Trade receivables	Loans	Other receivables	Trade payables	Other payables
Subsidiaries					
KT Linkus Co., Ltd.	₩ 926	₩ -	₩ 9	₩ -	₩ 13,459
KT Telecop Co., Ltd.	515	-	105	1,206	3,222
Ktcs Corporation	1,009	51	270	-	45,122
Ktis Corporation	1,103	-	8,687	-	39,785
KT Service Bukbu	68	-	28	-	15,647
KT Service Nambu	-	-	-	-	17,369
KT Skylife Co., Ltd.	399	-	12,664	-	12,003
KTDS Co., Ltd.	894	-	17,576	-	108,515
KT Estate Inc.	71	-	90,706	-	31,022
BC Card Co., Ltd.	61	-	73,223	-	1,451
KT Sat Co., Ltd.	342	-	38	-	2,255
KT Hitel Co., Ltd.	1,297	-	387	17,037	7,420
KT Commerce Inc.	-	-	409	1,927	14,847
KT M Hows Co., Ltd.	119	-	226	-	3,057
KT M&S Co., Ltd.	72	-	388	-	69,915
Genie Music Corporation	135	-	13	-	4,485
KT M mobile	4,970	-	786	-	498
Nasmedia Co., Ltd.	7,858	-	1,491	-	885
Others	7,819	5,600	7,814	-	9,631
Associates and joint ventures					
K-REALTY CR REIT 1	-	-	34,200	-	-
MOS GS Co., Ltd.	4	-	1	-	50
MOS Daegu Co., Ltd.	1	-	-	-	852
MOS Chungcheong Co., Ltd.	-	-	1	-	1,047
MOS Gangnam Co., Ltd.	2	-	1	-	-
MOS GB Co., Ltd.	2	-	1	-	80
MOS BS Co., Ltd.	53	-	1	-	-
MOS Honam Co., Ltd.	4	-	-	-	50
Others	71	-	3	-	-
Others					
kt ens corporation	102	-	9,100	12,829	26,154
Total	₩ 27,897	₩ 5,651	₩ 258,128	₩ 32,999	₩ 428,821

KT Corporation
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(in millions of Korean won)

	December 31, 2016				
	Receivables			Payables	
	Trade receivables	Loans	Other receivables	Trade payables	Other payables
Subsidiaries					
KT Linkus Co., Ltd.	₩ 2,806	₩ -	₩ 7	₩ -	₩ 11,391
KT Telecop Co., Ltd.	771	-	110	5	4,095
KTCS Corporation	1,746	74	34	-	37,343
KTIS Corporation	2,645	-	4,064	-	40,512
KT Service Bukbu	49	-	28	-	18,377
KT Service Nambu	52	-	1	-	18,805
KT Skylife Co., Ltd.	1,959	-	243	-	10,727
KTDS Co., Ltd.	204	-	8,372	-	116,079
KT Estate Inc.	2,447	-	43,427	-	45,772
BC Card Co., Ltd.	378	-	5,786	-	1,139
KT Sat Co., Ltd.	311	-	36	-	3,639
KT Hitel Co., Ltd.	503	-	1,954	17,803	7,178
KT Commerce Inc.	192	-	8	9,544	72,353
KT M Hows Co., Ltd.	114	-	8	-	3,357
KT M&S Co., Ltd.	24	-	102	-	83,674
Genie Music Corporation	-	-	562	-	6,707
KT M mobile Co., Ltd.	3,354	-	640	-	6,158
Nasmedia Co., Ltd.	7,742	-	2	-	1,427
Others	11,626	5,660	3,138	-	48,380
Associates and joint ventures					
KT WiBro Infra Co., Ltd.	-	-	-	-	43,394
K-REALTY CR REIT 1	-	-	33,110	-	-
MOS GS Co., Ltd.	9	-	1	-	1,481
MOS Daegu Co., Ltd.	1	-	-	-	1,082
MOS Chungcheong Co., Ltd.	6	-	1	-	2,043
MOS Gangnam Co., Ltd.	5	-	1	-	1,114
MOS GB Co., Ltd.	2	-	1	-	2,164
MOS BS Co., Ltd.	17	-	1	-	1,094
MOS Honam Co., Ltd.	1	-	-	-	1,289
Others	70	-	179	2	302
Others					
kt ens corporation	6,042	-	4,173	2,338	134,496
Total	₩ 43,076	₩ 5,734	₩ 105,989	₩ 29,692	₩ 725,572

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Significant transactions with related parties for the three-month periods ended March 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017							
	Sales				Purchases			
	Operating revenue		Other income		Operating expenses		Others ¹	
Subsidiaries								
KT Linkus Co., Ltd.	₩	1,688	₩	10	₩	15,093	₩	11
KT Telecop Co., Ltd.		2,696		2		2,267		1,097
KTCS Corporation		13,790		-		72,190		2
KTIS Corporation		15,608		1		68,646		20
KT Service Bukbu		2,102		1		43,933		157
KT Service Nambu		2,164		-		51,831		79
KT Skylife Co., Ltd.		7,558		-		10,657		-
KTDS Co., Ltd.		3,616		-		54,549		35,002
KT Estate Inc.		913		-		39,244		49
BC Card Co., Ltd.		1,128		-		4,985		162
KT Sat Co., Ltd.		1,257		-		5,161		-
KT Hitel Co., Ltd.		2,255		-		12,357		950
KT Commerce Inc.		312		-		22,457		9,823
KT M Hows Co., Ltd.		223		1		372		-
KT M&S Co., Ltd.		113,970		2		46,646		-
Genie Music Corporation		411		-		7,906		-
KT M mobile		13,916		-		1,798		-
Others		6,859		95		15,292		35
Associates and joint ventures								
K-REALTY CR REIT 1		-		-		9,431		-
MOS GS Co., Ltd.		153		-		3,502		-
MOS Daegu Co., Ltd.		54		-		2,553		-
MOS Chungcheong Co., Ltd.		77		-		3,588		-
MOS Gangnam Co., Ltd.		69		-		3,338		-
MOS GB Co., Ltd.		161		-		4,520		-
MOS BS Co., Ltd.		50		-		3,606		-
MOS Honam Co., Ltd.		93		-		2,940		-
Others		103		35		1,105		-
Others								
kt ens corporation		165		46		24,530		16,381
Total	₩	191,391	₩	193	₩	534,497	₩	63,768

¹ Amount includes acquisition of property and equipment and others.

KT Corporation
Notes to the Separate Interim Financial Statements
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(in millions of Korean won)

	2016							
	Sales				Purchases			
	Operating revenue		Other income		Operating expenses		Others ¹	
Subsidiaries								
KT Linkus Co., Ltd.	₩	2,611	₩	32	₩	14,331	₩	196
KT Telecop Co., Ltd.		3,122		8		3,040		-
Ktcs Corporation		9,735		-		86,558		-
Ktis Corporation		8,845		2		71,888		-
KT Service Bukbu		4,346		-		39,053		-
KT Service Nambu		3,395		-		49,717		-
KT Skylife Co., Ltd.		5,714		7		9,263		1
KTDS Co., Ltd.		3,558		8		55,620		35,125
KT Estate Inc.		150		31		40,441		-
BC Card Co., Ltd.		3,786		-		4,886		-
KT Sat Co., Ltd.		1,363		-		4,830		-
KT Hitel Co., Ltd.		1,777		9		14,038		1,524
KT Commerce Inc.		301		-		54,976		4
KT M&S Co., Ltd.		122,512		7		46,975		114
Genie Music Corporation		1,074		-		6,753		-
KT M mobile		11,646		-		757		-
Smart Channel Co., Ltd. ²		150		-		-		-
Others		8,886		131		16,521		203
Associates and joint ventures								
KT WiBro Infra Co., Ltd.		3		-		-		98
Smart Channel Co., Ltd. ³		766		-		-		-
K-REALTY CR REIT 1		-		-		9,440		-
MOS GS Co., Ltd.		141		-		3,503		-
MOS Daegu Co., Ltd.		46		-		2,613		-
MOS Chungcheong Co., Ltd.		64		-		2,633		78
MOS Gangnam Co., Ltd.		65		-		3,315		-
MOS GB Co., Ltd.		148		-		4,897		-
MOS BS Co., Ltd.		47		-		3,538		-
MOS Honam Co., Ltd.		64		-		3,457		-
Others		221		33		1,220		4
Others								
kt ens corporation		319		107		31,273		13,974
Total	₩	194,855	₩	375	₩	585,536	₩	51,321

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¹ Amount includes acquisition of property and equipment and others.

² Transactions for three-month periods ended March 31, 2016, after Smart Channel Co., Ltd. was included in consolidation scope and before Smart Channel Co., Ltd. was excluded from consolidation scope.

³ Transactions for three-month periods ended March 31, 2016, before Smart Channel Co., Ltd. was included in consolidation scope.

Key management compensation for the three-month periods ended March 31, 2017 and 2016 consists of:

<i>(in millions of Korean won)</i>	2017		2016	
Salaries and other short-term benefits	₩	500	₩	614
Post-employment benefits		78		99
Stock-based compensation		309		249
Total	₩	887	₩	962

Fund transactions with related parties for the three-month periods ended March 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017					
	Loan transactions		Equity contributions in cash		Dividend income	
	Collection					
Subsidiaries						
KTCS Corporation	₩	22	₩	-	₩	-
KBTO sp.zo.o.		1,937		3,879		-
KT Belgium		-		16,971		-
Associates and joint ventures						
KT-IBKC future investment fund 1		-		-		1,825
K-REALTY CR REIT 1		-		3,250		-
Total	₩	1,959	₩	24,100	₩	1,825

<i>(in millions of Korean won)</i>	2016					
	Loan transactions		Equity contributions in cash		Dividends income	
	Collection					
Subsidiaries						
KT Strategic Investment Fund No.2	₩	-	₩	3,450	₩	-
Ktcs Corporation		20		-		-
Autopion Co., Ltd.		100		-		-
Associates and joint ventures						
KT-DSC creative economy youth start-up investment fund		-		1,200		-

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(in millions of Korean won)

	2016		
	Loan transactions	Equity contributions in cash	Dividends income
	Collection		
K-REALTY CR REIT 1	-	-	2,336
MOS GS Co., Ltd.	-	-	8
MOS Daegu Co., Ltd.	-	-	8
MOS Chungcheong Co., Ltd.	-	-	8
MOS Gangnam Co., Ltd.	-	-	10
MOS GB Co., Ltd.	-	-	12
MOS BS Co., Ltd.	-	-	10
MOS Honam Co., Ltd.	-	-	10
Total	₩ 120	₩ 4,650	₩ 2,402

26. Fair Value

There are no significant changes in business and economic environments that affect the fair value of financial assets and liabilities.

(1) Fair Value by Financial Instruments Category

Carrying amounts and fair values of the financial instruments by category as of March 31, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)

	March 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	₩ 1,102,580	₩ -	₩ 1,602,397	₩ -
Trade and other receivables	3,105,185	-	3,212,206	-
Other financial assets				
Derivative used for hedge	74,654	74,654	214,648	214,648
Other financial instruments	8,366	-	168,366	-
Available-for-sale financial assets ²	94	94	93	93
	₩ 4,290,879	₩ 4,290,879	₩ 5,197,710	₩ 5,197,710
Financial liabilities				
Trade and other payables	₩ 4,785,407	₩ -	₩ 5,316,830	₩ -
Borrowings	6,804,061	6,856,171	7,569,047	7,632,086
Other financial liabilities				
Derivative used for hedge	46,757	46,757	11,413	11,413
Other derivative financial liability	1,973	1,973	1,973	1,973
	₩ 11,638,198	₩ 11,690,308	₩ 12,899,263	₩ 12,962,302

KT Corporation
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¹The Company did not conduct fair value estimation since the carrying amount is a reasonable approximation of the fair value.

² Equity instruments that do not have a quoted market price in an active market are measured at cost because their fair value cannot be measured reliably and excluded from the fair value disclosures.

(2) Financial Instruments Measured at Cost

Available-for-sale financial assets measured at cost as of March 31, 2017 and December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	March 31, 2017		December 31, 2016	
K Bank Inc.	₩	36,500	₩	36,500
IBK-AUCTUS Green Growth Private Equity Fund		8,518		9,506
WALDEN VI Fund		4,683		4,710
TRANSLINK II Fund		9,395		9,395
Storm IV Fund		7,550		7,550
CBC II Fund		8,601		8,601
Others		28,995		29,021
Total	₩	<u>104,242</u>	₩	<u>105,283</u>

The range of estimated cash flows is significant and the probabilities of the various estimates cannot be reasonably assessed and therefore these instruments are measured at cost.

The Company does not have any plans to dispose of the above-mentioned equities instruments in the near future. These instruments will be measured at fair value when the Company can develop a reliable estimate of the fair value.

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(3) Fair Value Hierarchy

Assets measured at fair value or for which the fair value is disclosed are categorized within the fair value hierarchy, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value or its fair value is disclosed as of March 31, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Other financial assets				
Derivative financial assets for hedging purpose	₩ -	₩ 74,654	₩ -	₩ 74,654
Available-for-sale financial assets	94	-	-	94
Disclosed fair value				
Investment in subsidiaries, associates and joint ventures	889,358	-	-	889,358
Total	₩ 889,452	₩ 74,654	₩ -	₩ 964,106
Liabilities				
Recurring fair value measurements				
Other financial liabilities				
Derivative financial liabilities for hedging purpose	₩ -	₩ 46,757	₩ -	₩ 46,757
Other derivative financial liability	-	-	1,973	1,973
Disclosed fair value				
Borrowings	-	-	6,856,171	6,856,171
Total	₩ -	₩ 46,757	₩ 6,858,144	₩ 6,904,901

KT Corporation
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(in millions of Korean won)

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Other financial assets				
Derivative financial assets for hedging purpose	₩ -	₩ 214,648	₩ -	₩ 214,648
Available-for-sale financial assets	93	-	-	93
Disclosed fair value				
Investment in subsidiaries, associates and joint ventures	874,984	-	-	874,984
Total	₩ 875,077	₩ 214,648	₩ -	₩ 1,089,725
Liabilities				
Recurring fair value measurements				
Other financial liabilities				
Derivative financial liabilities for hedging purpose	₩ -	₩ 11,413	₩ -	₩ 11,413
Other derivative financial liability	-	-	1,973	1,973
Disclosed fair value				
Borrowings	-	-	7,632,086	7,632,086
Total	₩ -	₩ 11,413	₩ 7,634,059	₩ 7,645,472

(4) Valuation Technique and the Inputs

Valuation techniques and inputs used in the recurring, non-recurring fair value measurements and disclosed fair values categorized within Level 2 and Level 3 of the fair value hierarchy as of March 31, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)

	March 31, 2017		
	Fair value	Level	Valuation techniques
Assets			
Recurring fair value measurements			
Other financial assets			
Derivative financial assets for hedging purpose	74,654	2	DCF Model
Liabilities			
Recurring fair value measurements			
Other financial liabilities			
Derivative financial liabilities for hedging purpose	46,757	2	DCF Model

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<i>(in millions of Korean won)</i>	March 31, 2017		
	Fair value	Level	Valuation techniques
Other derivative financial liability	1,973	3	DCF Model, Comparable Company Analysis
Disclosed fair value			
Borrowings	6,856,171	3	DCF Model

<i>(in millions of Korean won)</i>	December 31, 2016		
	Fair value	Level	Valuation techniques
Assets			
Recurring fair value measurements			
Other financial assets			
Derivative financial assets for hedging purpose	214,648	2	DCF Model
Liabilities			
Recurring fair value measurements			
Other financial liabilities			
Derivative financial liabilities for hedging purpose	11,413	2	DCF Model
Other derivative financial liability	1,973	3	DCF Model, Comparable Company Analysis
Disclosed fair value			
Borrowings	7,632,086	3	DCF Model

(5) Valuation Processes for Fair Value Measurements Categorized within Level 3

The Company uses external experts that perform the fair value measurements required for financial reporting purposes. External experts report directly to the chief financial officer (CFO), and discusses valuation processes and results with the CFO in line with the Company's reporting dates.

(6) Gain and Loss on Valuation at the Transaction Date

In the case that the Company values derivative financial instruments using inputs not based on observable market data, and the fair value calculated by the said valuation technique differs from the transaction price, then the fair value of the financial instruments is recognized as the transaction price. The difference between the fair value at initial recognition and the transaction price is deferred and amortized using a straight-line method by maturity of the financial instrument. However, in the case where inputs of the valuation techniques become observable in markets, the remaining deferred difference is immediately recognized in full in profit for the year.