

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number 001-15012

hanarotelecomChushikHoesa

(Exact name of Registrant as specified in its charter)

hanarotelecom incorporated

(Translation of Registrant's name into English)

The Republic of Korea
(Jurisdiction of incorporation or organization)

17-7 Yeouido-dong
Yeongdeungpo-gu, Seoul 150-874
Korea
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Title of each class

Common shares, par value Won 5,000 per share
American depositary shares, each of which represents one common share

Name of each exchange on which registered

The KRX KOSDAQ Market
The NASDAQ National Market

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

As of December 31, 2005, 462,135,180 common shares were issued and outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such short period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

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Unless the context otherwise requires, when we refer in this Annual Report to “hanarotelecom,” “we,” “us” and “our,” we mean hanarotelecom incorporated and its consolidated subsidiaries. All references to “Korea” and the “Republic” contained in this Annual Report shall mean The Republic of Korea. All references to the “Government” shall mean the government of The Republic of Korea. All references to the “MIC” shall mean the Ministry of Information and Communication of Korea. All other capitalized terms used but not defined in this Annual Report have the meanings given to them in the “Glossary.”

We publish our financial statements in Korean Won. In this Annual Report, references to “Korean Won,” “Won” or “W” are to the currency of Korea, and references to “U.S. dollars,” “U.S.\$” or “\$” are to the currency of the United States. This Annual Report contains translations of Korean Won amounts into U.S. dollar amounts, solely for your convenience. You should not construe these translations as representations that the Korean Won amounts actually represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rates indicated or at any other rates.

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Forward-Looking Statements

We may from time to time make written or oral forward-looking statements. Written forward-looking statements may appear in documents filed with the SEC, including this Annual Report, and other reports to shareholders and other communications.

The U.S. Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as the information is identified as forward looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. We rely on this safe harbor in making these disclosures.

Forward-looking statements appear in a number of places in this Annual Report and include statements regarding our intent, belief and current expectations and the current belief or current expectations of our management with respect to our future results of operations and financial condition. In many, but not all cases, we use words such as “anticipate,” “aim,” “believe,” “estimate,” “expect,” “intend,” “plan,” “probability,” “risk” and similar expressions, as they relate to us or our management, to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those which are anticipated, believed, estimated, expected, intended or planned. We do not intend to update these forward-looking statements.

Our forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ from those in the forward-looking statements as a result of various factors. We identify in this Annual Report, in “Item 3.D. Risk Factors,” “Item 4.B. Business Overview,” “Item 5. Operating and Financial Review and Prospects” and elsewhere some, but not necessarily all, of the important factors that could cause these differences.

We are under no obligation, and disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

Our selected consolidated financial data should be read in conjunction with the audited consolidated balance sheets as of December 31, 2004 and 2005, and the related audited consolidated statements of operations, shareholders' equity and cash flows for the fiscal years ended December 31, 2003, 2004 and 2005, and the notes to the consolidated financial statements, and with "Item 5. Operating and Financial Review and Prospects," included in this Annual Report. The selected consolidated financial data set forth below for the fiscal years ended December 31, 2001, 2002 and 2003 are also derived from our audited consolidated financial statements.

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in Korea, or Korean GAAP, which differ in significant respects from U.S. GAAP. See note 28 to our consolidated financial statements.

Year ended December 31				
2001	2002	2003	2004	2005

(millions of Won, except number of shares and per share data)

Statements of Operations Data:

Korean GAAP:

Operating revenue	Won 830,721	Won 1,417,854	Won 1,383,486	Won 1,449,569	Won 1,589,345
Voice revenue ⁽¹⁾	114,529	210,664	248,964	291,186	375,253
Leased line revenue ⁽²⁾	17,706	111,813	37,992	39,717	44,255
Broadband revenue ⁽³⁾	641,544	969,635	982,693	985,428	1,074,387
Other	56,942	125,742	113,837	133,238	95,450
Operating expenses	1,012,924	1,396,426	1,312,792	1,335,639	1,550,823
Operating income (loss)	(182,203)	21,428	70,694	113,930	38,522
Non-operating expenses, net	(78,194)	(149,106)	(231,606)	(100,081)	(230,309)
Ordinary income (loss) before income tax	(260,397)	(127,678)	(160,912)	13,849	(210,805)
Income tax expense	(35)	(1,083)	(302)	(495)	(434)
Minority interest share of loss (income)	2,941	3,736	(85)	(308)	1,921
Net income (loss)	<u>Won (257,491)</u>	<u>Won (125,025)</u>	<u>Won (161,299)</u>	<u>Won 13,046</u>	<u>Won (209,318)</u>
Weighted average number of shares outstanding (in thousands) — Basic	285,440	298,251	321,310	462,135	462,135
Weighted average number of shares outstanding (in thousands) — Diluted	285,440	298,251	321,310	462,135	462,135
Basic and diluted earnings (loss) per share of common share and ADS ⁽⁴⁾	Won (902)	Won (419)	Won (502)	Won 28	Won (453)
Dividends declared	—	—	—	—	—

U.S. GAAP:

Net income (loss)	<u>Won (251,382)</u>	<u>Won (167,179)</u>	<u>Won (161,598)</u>	<u>Won 14,849</u>	<u>Won (203,212)</u>
Basic and diluted earnings (loss) per share of common share and ADS ⁽⁴⁾	Won (1,762)	Won (1,122)	Won (1,006)	Won 64	Won (879)

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	As of December 31				
	2001	2002	2003 (millions of Won)	2004	2005
Balance Sheet Data:					
Korean GAAP:					
Working capital ⁽⁵⁾	Won (331,119)	Won (882,991)	Won (144,797)	Won (117,713)	Won (191,802)
Property and equipment, net	3,146,589	3,134,314	2,550,921	2,372,845	2,337,884
Total assets	4,104,265	4,104,785	3,386,548	3,185,112	3,034,260
Net assets	1,541,209	1,488,315	1,730,720	1,751,606	1,573,080
Long-term indebtedness ⁽⁶⁾	1,896,839	2,128,703	1,157,582	1,034,739	993,690
Capital stock	1,320,000	1,396,613	2,310,676	2,310,676	2,310,676
Total shareholders' equity	1,541,209	1,488,315	1,730,720	1,751,606	1,573,080
Dividends declared	—	—	—	—	—
U.S. GAAP:					
Property and equipment, net	2,727,091	2,703,850	2,554,089	2,377,399	2,343,979
Total assets	3,672,451	3,678,342	3,461,727	3,232,152	3,086,105
Total shareholders' equity	1,450,686	1,368,938	1,757,035	1,775,321	1,601,800

- (1) Voice revenue consists of revenue derived from services provided to fixed line customers.
- (2) Leased line revenue consists of revenue derived from services that give the subscriber the right to use a private line exclusively.
- (3) Broadband revenue consists of revenue derived from high-speed data transmission services and Internet access services.
- (4) Earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding. For comparability purposes, the weighted average number of common shares for the years ended December 31, 2001 and 2002 was recalculated to reflect the issuance of new shares in 2003 at a price below market. Basic and diluted earnings (loss) per share under U.S. GAAP for the years ended December 31, 2001, 2002, 2003, 2004 and 2005, respectively, were calculated reflecting the effect from the reverse stock split that occurred on May 3, 2006.
- (5) Working capital means current assets minus current liabilities.
- (6) Long-term indebtedness includes long-term debt in local and foreign currencies, debentures, long-term obligations under capital leases, current portion of Asset-Backed Securities payable and current maturities of long-term debt.

	As of December 31,					As of April 30, 2006
	2001	2002	2003	2004	2005	
Other Data:						
Subscribers ⁽¹⁾	2,747,768	3,817,378	3,727,144	4,162,207	4,294,276	5,157,881
Corporate leased lines ⁽²⁾	3,216	6,709	6,480	6,057	7,958	8,080
Employees	1,519	1,576	1,489	1,532	1,461	1,467
Network route kilometers-owned ⁽³⁾	8,804	12,425	15,317	17,051	19,826	20,258
Network route kilometers-leased ⁽⁴⁾	2,991	5,487	5,821	7,429	5,485	9,487
Office buildings connected with fiber optic lines	1,608	2,978	3,131	3,216	3,466	3,544
Apartment complexes connected with fiber optic lines	4,972	6,470	7,291	7,899	9,028	9,109
Switches installed (voice)	37	38	38	43	45	45
Switches installed (data) ⁽⁵⁾	156	161/140	161/149	161/168	161/161	161/267

- (1) Subscribers include broadband Internet and voice subscriber numbers. As of the end of 2005, the number of residential and corporate subscribers was 3,986,462 and 307,814, respectively. Since 2006, we have counted subscribers without classifying them into residential and corporate subscribers. Subscriber numbers for previous years reflect this new counting method.

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- (2) The 7,958 leased lines in service as of December 31, 2005 included 3,060 individual Internet dedicated lines connected to corporate subscribers and 4,898 individual traditional leased lines connected to corporate subscribers. The 8,080 leased lines in service as of April 30, 2006 included 3,215 individual Internet dedicated lines connected to corporate subscribers and 4,865 individual traditional leased lines connected to corporate subscribers.
- (3) Network route kilometers—owned includes owned fiber optic lines within cities we service, including fiber optic last-mile connections.
- (4) Network route kilometers—leased includes leased fiber optic lines within cities we service, including portions of our backbone, but does not include inter-city connections.
- (5) Information as of December 31, 2002, 2003, 2004, 2005 and April 30, 2006 represents the number of ATM/routers installed. The 267 routers as of April 30, 2006 included 110 routers previously used by Thrunet, with which we merged on January 1, 2006.

Exchange Rate Information

The following table sets forth, for the periods and dates indicated, information concerning the noon buying rate for Korean Won announced by the Federal Reserve Bank of New York, expressed in Korean Won per U.S.\$1.00. We do not intend to imply that the Won or U.S. dollar amounts could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all. On June 26, 2006, the noon buying rate was \$1.00 per Won 959.20 and the inverse noon buying rate was Won 1,000 per \$1.04.

Year ended December 31,	At End of Period	Average Rate ⁽¹⁾	High	Low
		(Won per U.S.\$1.00)		
2001	Won 1,313.50	Won 1,293.40	Won 1,369.00	Won 1,234.00
2002	1,186.30	1,242.00	1,332.00	1,160.60
2003	1,192.00	1,193.00	1,262.00	1,146.00
2004	1,035.10	1,139.30	1,195.10	1,035.10
2005	1,010.00	1,023.20	1,059.80	997.00
2006 (through June 26)	959.20	958.08	1,002.90	927.40

Month ending	At end of period	High	Low
		(Won per U.S.\$1.00)	
December 31, 2005	Won 1,010.00	Won 1,036.90	Won 1,009.00
January 31, 2006	958.90	1,002.90	958.90
February 28, 2006	970.90	976.30	962.00
March 31, 2006	971.40	981.95	966.80
April 30, 2006	942.80	970.40	939.60
May 31, 2006	945.30	951.50	927.40

- (1) The average of the noon buying rates on the last date of each month (or a portion thereof) during the period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Investing in our securities involves a high degree of risk. You should carefully consider the risks described below as well as all the other information in this Annual Report, including our consolidated

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financial statements and related notes and “Item 11. Quantitative and Qualitative Disclosure about Market Risk.”

Our business, operating results and financial condition could be materially adversely affected by any of the factors discussed below. The trading price of our securities could decline due to any of these factors. This Annual Report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks faced by us described below and elsewhere in this Annual Report. See “Forward-Looking Statements.”

Risks Related to the Telecommunications Industry and Our Business

We are subject to intense competition in all of the markets in which we operate, which may subject us to intense price competition and could affect our revenues

The telecommunications industry is highly competitive. KT Corporation is our main competitor in both the broadband Internet access services and local telephony services markets. As of April 30, 2006, KT had market share of approximately 49.9%, in the broadband services market in Korea and market share of approximately 92.9% in the local telephony services market. KT has significantly greater capital resources and owns significantly more fixed assets (including an integrated telecommunications network throughout Korea) than we do. With respect to the broadband services market, KT has an extensive fiber optic backbone network throughout Korea and is upgrading its last-mile connections and related transmission facilities to provide DSL services to its subscribers at speeds comparable to ours. We believe KT is focusing its upgrading process and marketing efforts on targeted high density and high demand areas. With respect to the telephony services market, KT was the sole provider of local telephony services prior to the commencement of our operations in April 1999 and operates an extensive fixed-line network in Korea. We remain KT’s main competitor in this market with a relatively small market share. Dacom Corporation, the only other local telephony licensee, has also been offering commercial local telephony services since January 2005. In addition, certain telecommunications business operators and facilities-based telecommunications operators were granted licenses to provide newly established Internet telephony services and began to provide services through interconnections with existing local and mobile telephony service providers. Continued upgrading or other competitive pressure by KT, Dacom or Internet telephony service providers could have a negative effect on our financial condition and results of operations.

We are also facing competition from others in the broadband Internet access services market. In particular, since the MIC granted Powercomm, a subsidiary of Dacom, a network service provider, or NSP, license to provide retail broadband Internet access service, Powercomm has launched aggressive marketing activities to acquire new subscribers for 100Mbps optical LAN services and 10Mbps cable modem services using its own network. As of the end of April 2006, Powercomm had a market share of approximately 4.4% and plans to attract approximately 1.3 million subscribers by the end of 2006. Since late 2004, Dacom has been strengthening its retail broadband Internet access business by using the network facilities of Powercomm Corporation, a subsidiary of Dacom, and launching LAN-based Internet services. Dacom’s market share was 1.4% as of the end of April 2006. We are also facing competition from cable television network system operators and relay operators who have a market share of 10.6% as of the end of April 2006. Entries by competitors such as Powercomm in the broadband Internet access market are further intensifying competition in our market. Due to this intensifying competition, our market share fell to 28.5% at the end of April 2006, a 0.7 percentage point decrease from the end of January 2006.

As a result of having to compete with KT in all of our markets and new competitors such as Powercomm in the broadband Internet access services market, we currently encounter significant pricing pressure and other forms of competitive pressures. Increased price or other competition could adversely affect our revenues per subscriber, the overall profitability of our business and our financial condition and results of operations. We cannot assure you that we will have the financial resources, technical expertise or marketing and support capabilities to compete successfully. In addition, future acquisitions, business combinations and alliances in the telecommunications industry may create additional competitors with resources greater than ours or strengthen existing competitors. For example, in January 2005, Dacom

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announced that it intends to merge its operations with Powercomm. The integration synergies generated from that merger may significantly increase the competitive strength of that combined entity. Any significant changes to the market share or resources of our competitors could have a material adverse effect on our business, financial condition and results of operations.

Targeted benefits from our merger with Korea Thrunet Co., Ltd., or Thrunet, may not be achieved if the remaining integration work does not proceed as planned or if an unexpected change in the regulatory environment occurs

We completed the merger transaction with Thrunet as of January 1, 2006. We also finished the integration of the computer systems of both companies. We plan to finalize the integration of call centers and the transfer of some Thrunet subscribers who had used a leased network to our own network by the end of the second quarter of 2006. However, if the remaining integration work is delayed or if an unexpected change in the regulatory environment occurs, the benefits targeted from the merger with Thrunet may be smaller than previously expected.

We may not be able to maintain our current broadband subscriber base which amounts to about 3.6 million subscribers because of severe competition in Korea's broadband market

The Korean telecommunications industry is one of the most developed in Asia, particularly in terms of broadband penetration. According to data derived from the MIC, the broadband penetration rate, as a percentage of Korean households with broadband Internet access, had reached 80% as of April 30, 2006, and broadband subscribers increased from approximately 3.9 million as of December 31, 2000 to approximately 12.5 million as of April 30, 2006. With the rapid growth of broadband penetration, broadband Internet subscriber growth has decreased significantly. As a result, it may be difficult for us to maintain our 3.6 million subscriber base amid competition with KT, which is the dominant player in the market, Powercomm, which has entered the broadband Internet market using its own network, and cable television network system operators, which are in an advantageous position in terms of local market recognition and price. Accordingly, our ability to generate additional revenues from our broadband operations will depend substantially on our ability to retain our existing broadband subscribers and increase the usage of our services by providing competitive and technologically up-to-date broadband and value-added services. The profitability of our broadband business and our overall financial condition may be adversely affected if we fail to retain our existing subscribers or increase the usage of our services, or develop other sources of revenue, in a cost-effective manner.

The telecommunications industry is capital intensive and subject to rapid changes in technology

The telecommunications industry is capital intensive and subject to rapid and ongoing technological changes. In particular, Korea is experiencing the beginning of convergence between voice, data and broadcasting, and fixed line and mobile, technologies. Government initiatives or policies, changing market demands and consumer trends and new technological advances may require us to adopt new technologies which could render our existing technology less competitive or obsolete. For example, the Government is currently envisioning a Broadband Converged Network which will combine broadband and mobile technologies and include terrestrial and satellite video broadcasting. This rapid technological evolution has had, and will continue to have, a significant impact on the speed and quality of our services and, in turn, the pricing of our services. In addition, we may require substantial capital expenditure and access to related and enabling technologies in order to develop and integrate any new technology with existing platforms and to comply with new industry standards, including any implementation of the Broadband Converged Network. We may be unable to integrate new technology into our network infrastructure in a timely and cost-effective manner, which could have a material adverse effect on the value of our network, business, financial condition and results of operations and on our ability to compete with other operators who implement the new technology more successfully. There can also be no assurance that new technology adopted by us will be profitable.

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The Government has had, and continues to have, significant control and influence over the development of the telecommunications industry in Korea

The Government has had, and continues to have, significant control and influence over the development of the telecommunications industry in Korea. Under Korean law, the Government, primarily through the MIC, has authority to regulate the telecommunications industry. The MIC is responsible for, among other things, licensing telecommunications operators, monitoring the rates charged by some telecommunications operators, including us, and setting standards and policies which affect pricing, competition, marketing, foreign investment, frequency allocation, technology choices, recommended levels of research and development spending, interconnection fee and other arrangements. Each agreement for interconnection with other service providers is subject to approval by, or reporting requirements to, the Korea Communications Commission. In addition, if the Communications Commission finds that we are engaged in unfair business practices, including the implementation of a pricing structure that restricts fair competition or which is against the interests of our service users, it may order us to take corrective measures or impose an administrative fine of up to 3% of our average annual revenues for the three years preceding the violation. The Government also regulates the Internet exchanges through which all broadband networks are connected to the Internet. See “Item 4.B. Business Overview—Korean Telecommunications Laws and Regulations” for a description of the regulatory environment in Korea. No assurance can be given that the Government will not change existing regulations, or impose additional regulations, that will have an adverse effect on our business and results of operations, particularly in light of increasing technological convergence.

For example, the Presidential Enforcement Decree of the Telecommunications Business Law prohibits any telecommunications service provider from offering bundled sales of telecommunications services or products that the MIC determines to be adverse to consumer interests. In making this determination, the MIC may weigh the advantages of cost-savings or increased convenience for the consumer as a result of the bundling against the disadvantages of any anti-competitive effects of the bundling. If the MIC determines our bundled sales to be adverse to consumer interests and the MIC were to exercise its discretion to prohibit us from offering bundled services, this could have a material adverse effect on our financial condition and results of operations.

In general, the MIC has promoted, and continues to promote, fair and effective competition in the telecommunications industry and we have benefited significantly from such policy initiatives. The MIC’s facilities provision policy, which requires dominant operators to provide their essential facilities to competitors upon request, and local loop unbundling regulations, under which we can use KT’s local loop facilities, have allowed us and other competitors to compete more effectively with dominant operators which may have more capital resources than we do. In particular, the MIC’s designation of KT as a dominant operator in both the local telephony services and the Internet access services markets has been effective in preventing KT from exercising its market power. As a dominant operator, KT is subject to more stringent regulations and restrictions on its ability to change its local telephony rates and Internet access rates. There can be no assurance that the MIC will continue to promote competition in the telecommunications industry and any reduction in the MIC’s support for competition could have a material adverse effect on our results of operations and financial condition.

Our licenses from the MIC are subject to certain conditions and may be subject to future conditions imposed by the MIC

We operate our telecommunications businesses pursuant to various licenses granted by the MIC. See “Item 4.B. Business Overview—Licensing.” The MIC may suspend or revoke our licenses or impose fines on us under certain circumstances, including the violation of telecommunications laws and regulations and the breach of any conditions of the relevant license. Although we believe we are in general compliance with telecommunications laws and regulations and the conditions of our licenses, suspension or revocation of any license required for us to operate any of our telecommunications businesses would have a material adverse effect on our business, financial condition and results of operations.

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We outsource a significant portion of our sales force needs. Our lack of direct control over our outsourced sales force's actions may materially affect our sales and marketing efforts

As of April 30, 2006, we had 463 employees in our marketing and sales department. However, in order to rapidly expand the coverage of our marketing and sales efforts in a cost-efficient manner, we outsource a significant portion of our sales force needs. In 2005, we acquired about 91% of our new broadband services subscribers and about 68% of our new voice services subscribers through our outside sales force. The outside sales force and its employees are not employees of hanarotelecom and the amount of control we exercise over their activities is necessarily limited. If our training, compensation and monitoring programs fail to ensure the quality and performance of our outside sales force, our sales and marketing efforts will be materially affected and our performance, including the number of new subscribers, could suffer.

Certain major shareholders have a significant influence over our management and operations

A consortium of investors comprised of companies or partnerships which are directly or indirectly controlled and managed by the AIG Asian Infrastructure Fund II, the AIG Asian Opportunity Fund, Newbridge Capital, Inc. and TVG Capital Partners, Ltd., owned an aggregate of 39.56% of our outstanding common shares as of December 31, 2005. See "Item 7.A. Major Shareholders." Pursuant to an investment agreement between us and those principal shareholders, we have agreed not to take certain significant corporate actions without the consent of those principal shareholders so long as they and their affiliates continue to hold an aggregate of at least 15% or more of our outstanding common shares. In addition, pursuant to certain other agreements, certain of the principal shareholders have the right, among other things, to nominate directors to our board, to nominate our chief financial officer, to make proposals to our board of directors and to discuss our business and affairs with our board of directors, officers and independent accountants. The interests of those principal shareholders may, in certain circumstances, differ from the interests of the other holders of our securities.

The inability to lease networks from third parties could materially affect our ability to provide services

We lease a substantial portion of our network from third parties including telecommunications operators. We lease from Korea Electric Power Corporation, or KEPCO, ancillary facilities such as electric poles and conduit ducts for use in building our own local fiber optic network and our own HFC networks. Our agreement with KEPCO to lease its ancillary facilities allows us to expand our network coverage at a lower cost. Accordingly, the termination of the lease agreements with KEPCO could have a material adverse effect on our operations. Furthermore, any failure by KEPCO to properly maintain its ancillary facilities could result in service disruptions or reduced data transmission quality.

In areas that are not covered by our network, we have entered into non-exclusive network lease agreements with cable television network system operators, relay operators and Powercomm. Our competitors also have, or are trying to establish, relationships with these cable television network system operators, relay operators or Powercomm. We may not be able to maintain our relationships with these cable television network system operators, relay operators and Powercomm. In particular, in connection with Dacom's marketing of LAN-based Internet services, cable modem services and VDSL services, Dacom uses Powercomm's network. In addition, in August 2005, the MIC granted Powercomm, a subsidiary of Dacom, an NSP license to provide retail broadband Internet access service. Dacom's focus on the retail broadband Internet access market in conjunction with Powercomm and Powercomm's retail broadband Internet access service may prevent us from continuing to lease our network on similar terms from Powercomm, which may require us to make significant capital expenditures to build our own last-mile connections in those areas.

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Our networks may be vulnerable to security breaches, piracy and hacking

Despite the implementation of security measures, our networks may be vulnerable to computer viruses, piracy, hacking or similar disruptive problems. Computer viruses or problems caused by third parties could lead to disruptions of our services to our customers. Fixing such problems caused by computer viruses or security breaches may require the interruption, delay or temporary suspension of our services, which could result in lost revenue and penalties payable to affected customers.

Breaches of our network security, including through piracy or hacking, may have a material adverse effect on our earnings and financial condition and may require us to incur further expenditures to put in place more advanced security systems to prevent any unauthorized access to our networks.

We may not generate sufficient cash flow from operations or obtain adequate financing on acceptable terms or at all to implement our business plan in the mid- to long-term

As a result of the rapid expansion of our business and the substantial operating losses we incurred in the past, we have principally relied on equity and debt financings to fund our operations and have significant debt and debt service and repayment obligations. In order to maintain our competitive position and continue to meet the increasing demands for service quality, availability and competitive pricing, we may need to incur additional capital expenditures on enhancing our networks and expanding our subscriber base. Our actual future financing requirements will also depend on our future performance, market conditions and other factors, many of which are beyond our control and cannot be predicted with certainty. In addition, we may need to raise additional funds through long-term borrowings, the proceeds of equity and corporate bond offerings and vendor financing to acquire complementary businesses, develop new products or otherwise respond to changing business conditions or unanticipated competitive pressures or technological or marketing hurdles. Our ability to obtain additional financing will be dependent on our future performance and market conditions, among other factors. We cannot assure you that long-term borrowings, vendor financing, or any alternative financing will be available on favorable terms, or at all. Moreover, under current Korean law our ability to sell additional voting shares to foreign investors is limited. As a result, our options to raise equity capital are more limited than other companies. If we are unable to obtain sufficient new debt or equity financing, we may need to modify, delay or abandon elements of our business plan, which could have a material adverse effect on our business, financial condition and results of operations.

We will be exposed to increased risks as we expand the range of our services

As we expand the range of our products and services beyond our traditional business lines and as the complexity of our services and network systems increases, we will be exposed to new and increasingly complex risks. We may have only limited experience with the operational risks or new technologies related to the expanded range of our services. To the extent we expand our service offerings through acquisitions, we face risks relating to the integration of acquired businesses with our existing operations. Our operational systems may prove to be inadequate and may not work in all cases or to the degree required. In addition, our efforts to offer new services may not succeed if market opportunities develop more slowly than expected or if the profitability of opportunities is undermined by competitive pressures.

We may be liable for information disseminated over our Internet services network

The liability of Internet service providers, or ISPs, under Korean law for information carried on or disseminated through their networks is not completely settled. New court decisions, laws, regulations and other activities regarding content liability may significantly affect the development and profitability of companies offering online and Internet access services, including us. The imposition upon ISPs of potential liability relating to information carried on or disseminated through the ISPs' systems, such as liability for computer viruses, defamatory speech or copyright infringement, could require us to implement measures to reduce our exposure to such liability. Such measures may require that we spend substantial

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resources or discontinue some services or content offerings. Any of these actions could have a material adverse effect on our business, financial condition or results of operations.

We could be adversely affected if we experience a failure of our equipment

We do not carry “business interruption” insurance. A major failure of our equipment or a natural disaster affecting any part of our network or equipment could have a material adverse effect on our operations.

We could be subject to liability and regulatory action arising from claims or other actions relating to our handling of subscriber information.

We maintain various information regarding our subscribers. Various laws and regulations in Korea and other countries impose restrictions on the use and dissemination of that information by us. We have put in place comprehensive personal information security management measures across the company and at any third parties with which we may share subscriber information under outsourcing arrangements, to comply with the applicable standards. If we are required to implement further personal information security measures, we may have to incur additional costs and our financial condition could be negatively affected.

In the event that personal information about subscribers held by us or a third party is leaked or improperly accessed despite these security measures, we may be subject to liability such as damage payments or regulatory actions arising out of a failure to protect such information. In addition, such incidents could create a negative public perception of our operations, systems or brand, which may in turn decrease customer and market confidence and materially and adversely affect our business, financial condition and results of operations. For example, there have been recent press reports about subscriber information collected by certain Internet service providers, including us, being illegally sold by current or previous employees of the Internet service providers to third parties, who in turn used the information to distribute spam e-mail and make unsolicited telephone calls. A Korean law firm is currently soliciting plaintiffs who were allegedly harmed by the leakage of subscriber information to file a civil lawsuit against those service providers, including us.

Risks Related to Korea

There are unique economic and political risks associated with investing in Korean companies

We generate substantially all of our revenue from operations in Korea. Our future performance will depend in large part on Korea’s future economic growth. Adverse developments in Korea’s economy or in political or social conditions in Korea may have an adverse effect on our number of subscribers, call volumes and results of operations, which could have an adverse effect on our business.

The pace of economic recovery in Korea over the past several years has been volatile. Economic indicators in the past few years have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Events related to terrorist attacks in the United States that took place on September 11, 2001, recent developments in the Middle East, including the war in Iraq, higher oil prices, the general weakness of the global economy and the outbreak of severe acute respiratory syndrome, or SARS, in Asia and other parts of the world have increased the uncertainty of world economic prospects in general and continue to have an adverse effect on the Korean economy. Any future deterioration of the Korean economy would adversely affect our financial condition and results of operations.

Developments that could adversely affect Korea’s economy in the future include:

- financial problems relating to chaebols, or their suppliers, and their potential adverse impact on Korea’s financial sector;

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- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including depreciation of the U.S. dollar or Japanese yen), interest rates and stock markets;
- adverse developments in the economies of countries such as the United States, China and Japan, to which Korea exports, or in emerging market economies in Asia or elsewhere, which developments could result in a loss of confidence in the Korean economy;
- social and labor unrest or declining consumer confidence or spending resulting from layoffs, increasing unemployment and lower levels of income; and
- a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy.

Developments that adversely affect Korea's economic recovery will likely also decrease demand for our services and adversely affect our results of operations.

Increased international tensions with North Korea could have an adverse effect on us and the market value of our common shares

Relations between Korea and North Korea have been tense over most of Korea's modern history. The level of tension between Korea and North Korea has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea and increasing hostility between North Korea and the United States. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency, and has reportedly resumed activity at its Yongbyon power plant. In January 2003, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, demanding that the United States sign a non-aggression pact as a condition to North Korea dismantling its nuclear program. In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held multilateral talks in an effort to resolve issues relating to the nuclear weapons program of North Korea. In February 2005, North Korea announced that it possessed nuclear weapons. In September 2005, North Korea agreed to end its nuclear weapons program, and the six participating nations signed a draft preliminary accord, pursuant to which North Korea agreed to dismantle its existing nuclear weapons, abandon efforts to produce new future weapons and readmit international inspectors to its nuclear facilities. In return, the other five nations participating in the talks, China, Japan, Korea, Russia and the United States, expressed willingness to provide North Korea with energy assistance and other economic support. The six parties agreed to hold further talks in November 2005. However, one day after the joint statement was released, North Korea announced that it would not dismantle its nuclear weapons program unless the United States agreed to provide civilian nuclear reactors in return, a demand that the United States rejected. We cannot assure you that future negotiations will result in a final agreement on North Korea's nuclear program, including critical details, such as implementation and timing, or that the level of tensions between Korea and North Korea will not escalate. In addition, in recent years, there have been heightened security concerns stemming from North Korea's nuclear weapon and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the international community. Any further increase in tensions resulting, for example, from a break-down in contacts or test of long-range nuclear missiles, coupled with continuing nuclear programs by North Korea or an outbreak in military hostilities, could adversely affect our business, prospects, financial condition and results of operations and could lead to a decline in the market value of our ADSs.

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

Effective January 1, 2005, a new law became effective that allows class action suits to be brought by shareholders of companies listed on the KRX Stock Market or the KRX KOSDAQ Market, including us, for losses incurred in connection with purchases and sales of securities and other securities transactions arising from (1) false or inaccurate statements provided in registration statements, prospectuses, business reports and audit reports and omission of material information in such documents; (2) insider trading; or (3) market manipulation. This new law applies to companies such as ourselves listed on the KRX Stock Market or the KRX KOSDAQ Market whose total assets are equal to or greater than Won 2,000 billion at the end of the immediately preceding fiscal year. However, in the event that certain elements of a financial statement for the fiscal year ended before January 1, 2005, were not in compliance with the then-effective accounting standards, this law does not apply, if such non-compliance is cured or addressed in the financial statement for the fiscal year ending December 31, 2006, and such corrected information is submitted to the Financial Supervisory Commission, or FSC, the Korea Exchange, Inc., or KRX, or made publicly available. This law permits, subject to court approval, 50 or more shareholders who collectively held 0.01% or more of the shares of a company at the time when the cause of action arose to bring a class action suit against, among others, the company and its directors, officers and auditors. It is uncertain how the courts will apply this law. Class action suits can be time-consuming and expensive to resolve, and can divert management time and attention from the operation of a business. Although we are not aware of any basis for such suit being brought against us, nor of any such suits that are pending or threatened, any such litigation brought against us could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Owning Our Shares or ADSs

Rights of shareholders under Korean law may be different from those under the laws of jurisdictions within the United States and other countries.

Our Articles of Incorporation, the regulations of our board of directors, the Korean Commercial Code and the Korean Securities and Exchange Act govern our corporate affairs. Legal principles relating to such matters as the validity of corporate procedures, directors' and officers' fiduciary duties and shareholders' rights may be different from those that would apply if we were a non-Korean corporation. Shareholders' rights under Korean law are different in some respects from shareholders' rights under the laws of jurisdictions within the United States and other countries. You may have more difficulty in asserting your rights as a shareholder than you would as a shareholder of a corporation organized in a jurisdiction outside of Korea. For a detail discussion of the relevant provisions under the Korean Commercial Code and our Articles of Incorporation, see "Item 10.B. Memorandum and Articles of Association."

Restrictions on foreign ownership of our voting shares imposed by Korean law may depress the price of our common shares

The Telecommunications Business Law of Korea restricts foreign ownership in voting shares of a network service provider, including us. At present, a foreign government, foreigner or any legal entity owned by a foreigner that has 15% or more of its outstanding voting shares, including stock-equivalents and investment equity such as depositary receipts, owned by a foreign government, foreigner or any specially related person as the largest shareholder may not own more than 49% of the aggregate number of the issued and outstanding voting shares of any network service provider. In the event that such foreign ownership restrictions are violated, the holders of shares in excess of the legal limitations cannot exercise voting rights with respect to the shares exceeding such limit and the MIC may require that corrective measures be taken to comply with the legal restrictions. In addition, the MIC may impose a mandatory performance fee on the non-compliant party and the service provider may refuse to enter the violating shareholder's shares in excess of the legal limitations in its corporate register. As of May 30, 2006,

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foreign ownership in our voting shares was approximately 49%, including the 39.45% share ownership held by a consortium of investors led by AIG Asian Infrastructure Fund II and AIG Asian Opportunity Fund, Newbridge Capital, Inc. and TVG Capital Partners, Ltd. The market price of our common shares may be, and may continue to be, lower because of these limitations on foreign share ownership in our voting shares. A stricter application of the rules relating to foreign share ownership may also negatively impact our share price in the future.

Additional restrictions on acquiring a large stake in our common shares imposed by Korean law may depress the market price of our common shares

Prior to making an investment in 10% or more of the outstanding voting shares of a Korean company, foreign investors are generally required under the Foreign Investment Promotion Law of Korea to submit a report to a bank located in Korea (which may include a non-Korean bank's Korean branch office) that is licensed under the Foreign Exchange Transaction Act to engage in foreign currency transactions or the Korea Trade Investment Promotion Agency pursuant to a delegation by the Ministry of Commerce, Industry and Energy of Korea. Failure to comply with this reporting requirement may result in the imposition of criminal sanctions. Subsequent sales by the investor of its shares in the company will also require a prior report to the bank. The Telecommunications Business Law also requires the MIC to undertake a public interest review when a shareholder of a service provider becomes a controlling shareholder of the service provider. Depending on the review, which assesses the impact of the transaction on the national security, public good and order of society, the MIC may order an amendment or suspension of the relevant contract, suspension of the voting rights, or ultimately, a sale of shares. These restrictions may discourage some investors from acquiring large positions in our common shares and as a result, may have lowered, and may continue to lower, the market price of our common shares.

Foreign exchange rate fluctuations may affect the dollar value of our ADSs and dividends payable to holders of our ADSs

Market prices for our ADSs may fall if the value of the Korean Won declines against the U.S. dollar. Although we do not expect to pay dividends in the foreseeable future, any dividends that we do declare and pay will be paid to the depositary for the ADSs in Korean Won and then converted by the depositary into U.S. dollars. As a result, the U.S. dollar amount of cash dividends and other cash payments made to holders of our ADSs would be reduced if the value of the Korean Won declines against the U.S. dollar.

As a holder of ADSs, you have fewer rights than a shareholder has, and you must act through the depositary to exercise these rights

The rights of our shareholders under Korean law to take actions including voting their shares, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records and exercising appraisal rights are available only to shareholders of record. Because the depositary, through its custodian, is the record holder of the shares underlying the ADSs, a holder of ADSs may not be entitled to the same rights as a shareholder. In your capacity as an ADS holder, you are not able to bring a derivative action, examine our accounting books and records or exercise appraisal rights except through the depositary.

In addition, the Korean Commercial Code and our Articles of Incorporation require us, with certain exceptions, to offer shareholders the right to subscribe for new shares of our common shares in proportion to their existing ownership percentage whenever new shares of our common shares are issued. Under the deposit agreement governing the ADSs, if we offer any rights to subscribe for additional shares of our common shares, the depositary under the deposit agreement, after consultation with us, may make such rights available to the holders of ADSs or dispose of such rights on behalf of the holders and make the net proceeds available to them or, if the depositary is unable to take such actions, it may allow the rights to lapse with no consideration to be received by the holders of the ADSs. The depositary is required to make available any rights to subscribe for any securities only when a registration statement under the U.S.

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Securities Act of 1933 is in effect with respect to the securities or if the offering of the securities is exempt from the registration requirements under the U.S. Securities Act. We are under no obligation to file a registration statement under the U.S. Securities Act to enable holders of the ADSs to exercise preemptive rights for our common shares underlying the ADSs, and we cannot assure you that any registration statement would be filed or that an exemption from the registration requirement under the U.S. Securities Act would be available. Holders of ADSs that are not entitled to exercise preemptive rights may thereby suffer dilution of their interests.

Future sales of ADSs and common shares could lower our share price

If existing shareholders decide to sell large amounts of our shares, the trading price for the ADSs and our shares could fall. We believe that some of our five major shareholders are currently contemplating selling their shares of our common shares. Any announcement of a sale by any major shareholders of our shares or any such sale may have a material adverse effect on the price of our common shares or the ADSs.

It may not be possible for investors to effect service of process within the United States upon us or our directors or senior management, or to enforce against us or those persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States

We are a stock corporation organized under the laws of the Republic of Korea. Almost all of our directors and senior management reside outside of the United States. Most of our assets and those persons are located in Korea and elsewhere outside of the United States. It may not be possible, therefore, for U.S. investors to effect service of process within the United States upon us or those persons or to enforce against us or those persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States. We believe that there is doubt as to the enforceability in Korea, in original actions or in actions to enforce judgments of U.S. courts, of claims predicated solely upon the federal securities laws of the United States.

Item 4. Information on the Company.

A. History and Development of the Company.

We are a stock corporation organized under the laws of the Republic of Korea. We were incorporated on September 26, 1997. Our legal and commercial name is “hanarotelecomChushikHoesa” in Korean, and “hanarotelecom incorporated” in English. Our registered office is located at 17-7 Yeouido-dong, Yeongdeungpo-gu, Seoul, Korea, 150-874, telephone number (82-2) 6266-5500. Our agent for U.S. federal securities law purposes is CT Corporation System, 111 Eighth Avenue, New York, NY 10011.

We were established as Korea’s second local call carrier. Since our inception, we have been striving to become the leading provider of high-speed Internet access, data and multimedia services in Korea. Some of the important events in the development of our business are set forth below:

- In October 1997, we received our perpetual license to provide fixed-link local telephone service on a nationwide basis in Korea.
- In June 1998, we registered as a specific service provider to resell or provide the same type of telecommunications services as those of domestic or foreign network service providers.
- In April 1999, we launched our local call and high-speed Internet access services in Seoul, Busan, Incheon and Ulsan.
- In March 2000, we successfully completed a global offering of our ADSs on the NASDAQ National Market.

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- In January 2003, we received a perpetual license to provide long distance telephony services, including inter-city and international services.
- In June 2003, we commenced providing fixed line number portability service.
- In November 2003, we issued new shares to a consortium of investors led by AIG, Newbridge and TVG having an aggregate value of Won 585 billion, as a result of which they acquired an aggregate of 39.6% equity interest in us. AIF II NT, Ltd. and its affiliate became our largest shareholder holding a 13.67% equity interest in us. Following such new share issuance, there was a change in certain members of our management. See “Item 6. Directors, Senior Management and Employees.”
- In July 2004, we launched “hanarotelecom” as our new corporate identity.
- On January 1, 2006, we completed an acquisition of Thrunet common shares representing 96.22% of Thrunet’s outstanding common shares.
- On May 3, 2006, as a result of a reverse stock split (2:1) without payment to shareholders, the number of our outstanding shares decreased to 231,767,506 shares.

See “Item 5.B. Liquidity and Capital Resources” for a description of our principal capital expenditures for the last three fiscal years and currently in progress.

We have not received any public takeover offers by third parties.

B. Business Overview.

General

We have been providing telecommunications services since 1999 and currently offer high-speed broadband Internet access, voice, leased line and IDC services in Korea. We are the second largest provider of broadband Internet access services in Korea in terms of both revenue and subscribers and our network currently covers 80% of households in Korea. Our voice service comprises local, domestic long distance, international long distance and VoIP services. For the year ended December 31, 2005, we had revenues of Won 1,444.4 billion and net income of Won 208.8 billion. As of January 1, 2006, we completed our merger transaction with Thrunet. The following data reflects the operating statistics of the combined entity.

As of April 30, 2006, we had 3.58 million broadband Internet access subscribers. Our market share of Korean broadband Internet access subscribers was 28.5%. Of our broadband Internet access subscribers, 40.5% are using DSL technology, 59.2% are using cable modem technology and 0.3% are using either broadband WLL, often referred to as “B-WILL,” or wireless LAN, often referred to as “WLAN.” We are the only major provider of broadband Internet access services in Korea with a significant presence in both DSL and cable modem technology, with our major competitors predominantly providing one or the other. Broadband Internet access services accounted for 68.2% of our revenues for the year ended December 31, 2005.

As of April 30, 2006, we had 1.58 million voice lines. Since the nationwide implementation of fixed line number portability on August 1, 2004, we have been expanding our coverage and subscriber base with our integrated services of long distance and international telephony as well as voice over Internet Protocol, or VoIP, services based on IP networks. We added 436,840 net voice lines in the period from August 2004 through April 2006, which represents a 27.6% growth in our voice lines and an increase in our market share of total voice lines in Korea from 5.0% to 6.9%. In particular, after the acquisition of Thrunet, we are strengthening marketing activities targeting Thrunet’s broadband subscribers. Voice services

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accounted for 25.9% of our revenues for the year ended December 31, 2005. As of April 30, 2006, 29.6% of our broadband Internet access customers use our voice lines on a bundled basis.

We also provide leased line services and operate an Internet data center for corporate customers. These and other activities accounted for 9.07% of our revenues for the year ended December 31, 2005.

We have a technologically advanced transmission and access network, which comprises 20,258 route kilometers of owned and 9,487 route kilometers of leased fiber optic cables as of April 30, 2006. As of Dec 31, 2005, we had connected 9,028 apartment complexes and 3,466 office buildings with fiber optic lines. We estimate that our network has access to approximately 12.8 million Korean households.

We provide our broadband Internet access and voice services under the “hanafos” and “hanafone” brands, respectively. We have been voted the best Internet service provider for the last three years by the Korean Standard Service Quality Index (KS-SQI), which is sponsored by the Korean Standards Association, and the best Internet service provider for the last two years by the Global Customer Satisfaction Competency Index (GCSI), which is sponsored by the Japan Management Association Consulting.

Recent Acquisitions and New Services

Thrunet Acquisition

We completed the merger transaction with Thrunet as of January 1, 2006, in order to strengthen our competitiveness in the broadband Internet market and maximize our corporate value.

To date, we have completed the integration of computer systems of both companies. We plan to finalize the integration of call centers and the transfer of some Thrunet subscribers who had used a leased network to our own network by the end of the first quarter of 2006. However, if the remaining integration work is delayed or if an unexpected change in the regulatory environment occurs, benefits from the merger with Thrunet may be smaller than previously expected.

For a discussion of the risks involved in our acquisition of Thrunet, see “Item 3.D. Risk Factors—Risks Related to the Telecommunications Industry and Our Business—Targeted benefits from our merger with Thrunet may not be achieved if the remaining integration work does not proceed as planned or if an unexpected change in the regulatory environment occurs

TV-Portal Service

In order to grow into a comprehensive media company, we acquired 65% of the common shares (780,000 shares at Won 5.5 billion) of CelrunTV, a provider of TV portal/IP TV service platform and IP STB technology on March 13, 2006. We plan to launch TV-Portal, a TV-based content-on-demand service, in the second half of 2006. CelrunTV changed its corporate name to hanaromedia Inc. and became our affiliated company on May 2, 2006, when we invested an additional Won 6.5 billion to acquire new shares issued by hanaromedia. We plan to acquire additional new shares for Won 6.5 billion in the second half of 2006.

In addition, to strengthen our convergence services including TV-Portal, we established a Convergence Headquarters in April 2006. We plan to offer various value-added services based on our own network and improve subscriber retention. For our TV-Portal business we are aiming to gain 250,000 subscribers by the end of 2006, and 1.5 million subscribers by the end of 2008 when government regulations on IV-TV business are expected to be eased and full-blown service will be permitted. However, we may not be able to achieve our targeted subscriber growth for TV-Portal if we are unsuccessful in marketing this service to our existing broadband subscribers. Actual subscriber growth and revenue from such subscribers may differ significantly from our targets.

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Our Services

We currently provide broadband Internet access services, telephony services and leased line services in Korea pursuant to several wire-line based options and wireless technologies. The following table shows the numbers of subscribers or lines by business segment and technology:

	As of December 31,				As of May 31, 2006
	2002	2003	2004	2005	
Broadband:					
VDSL	—	165,134	272,900	344,988	374,354
ADSL	1,294,368	1,051,891	823,539	569,604	508,578
Cable Modem	1,539,690	1,459,319	1,439,792	1,416,744	2,109,756
Fiber optic LAN ⁽¹⁾	—	—	157,808	396,088	589,862
B-WLL	43,468	49,419	54,895	45,735	9,432
Subtotal	<u>2,877,526</u>	<u>2,725,763</u>	<u>2,748,934</u>	<u>2,773,159</u>	<u>3,591,982</u>
Voice lines	939,852	1,001,381	1,413,273	1,521,117	1,599,467
Leased lines	6,709	6,480	6,057	7,958	8,200
Total	<u><u>3,824,087</u></u>	<u><u>3,733,624</u></u>	<u><u>4,168,264</u></u>	<u><u>4,302,234</u></u>	<u><u>5,199,649</u></u>

- (1) Fiber optic LAN subscribers were counted as ADSL subscribers until 2005, since which they have been counted separately.
- (2) Since 2006, we have counted broadband subscribers without classifying them into residential and corporate subscribers. Subscriber numbers for previous years reflect this new counting method.
- (3) The number of subscribers for 2005 (residential and corporate subscribers are counted separately);

	As of December 31, 2005
Broadband:	
Residential:	
VDSL	344,871
ADSL	551,128
Cable Modem	1,415,900
Fiber optic LAN	396,088
Corporate:	
VDSL	117
ADSL	18,476
Cable Modem	844
B-WLL	11,482
WLAN	34,253
Subtotal	<u>2,773,159</u>
Voice lines	1,521,117
Leased lines	7,958
Total	<u><u>4,302,234</u></u>

For the years ended December 31, 2002, 2003, 2004 and 2005, we had the following revenues generated by our business segments:

	Year ended December 31,			
	2002	2003	2004	2005
	(billions of Won)			
Broadband	Won 969.6	Won 982.7	Won 985.4	Won1074.4
Voice	210.7	249.0	291.2	375.2
Leased line	111.8	38.0	39.8	44.2
Others	125.8	113.8	133.2	95.5
Total	<u><u>Won1,417.9</u></u>	<u><u>Won1,383.5</u></u>	<u><u>Won1,449.6</u></u>	<u><u>Won1589.3</u></u>

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Broadband

We currently provide high-speed broadband Internet access services through several service offering options marketed under the brand name “hanafos.” Our broadband network coverage extends to 80% of households in Korea. We offer broadband Internet services to subscribers in large apartment complexes and commercial buildings through fiber optic networks and to subscribers in less densely populated residential areas through HFC cable networks. We also provide wireless broadband Internet access to medium and low density housing complexes using B-WLL technology and in high traffic areas (such as hotels and commercial centers) using WLAN technology. Residential subscribers in areas covered by fiber optic networks have the choice of two types of DSL services, namely ADSL and VDSL services. With the broadband Internet market reaching saturation, 100Mbps products such as optical LAN are driving market growth. In this environment, we provide fast and reliable access to the Internet for subscribers in apartment complexes and residential/commercial complexes. Corporate subscribers generally have the choice of ADSL, VDSL or our dedicated leased line services. Subscribers in service areas covered by HFC cable networks are provided with cable modem based services.

The principal features of our main broadband Internet access service packages and tariff structure are set out in the table below:

Service Package	Technology	Max Speed	Monthly Service Charge ⁽¹⁾	
hanafos V Dream II	VDSL	50 Mbps	Won	43,000
hanafos V Dream I	VDSL	20 Mbps		40,000
hanafos V Pro xDSL	ADSL	13 Mbps		38,000
hanafos Fiber LAN	LAN	100 Mbps		33,000
hanafos V Pro CATV	Cable Modem	10 Mbps		34,000
hanafos V Lite	ADSL, Cable Modem	4 Mbps		28,000

- (1) There is a one-time installation fee of Won 30,000. Cable or DSL modems are rented for a monthly fee of Won 8,000. Discounts on the monthly service charge are given to long-term subscribers and range from 3.0% to 11.0%. Modem rental fees have in some circumstances been waived or discounted by up to 40.0%.

DSL (ADSL and VDSL) Services

DSL services are provided primarily over existing copper lines in the subscriber’s premises, which are connected to our backbone network through fiber optic last-mile connections. Our DSL services are targeted at subscribers in large apartment complexes. ADSL services offer Internet access transmission speeds of up to 13 Mbps and VDSL services offer data transmission speeds of up to 50 Mbps. DSL subscribers pay a monthly flat fee.

Fiber Optic LAN

We provide fiber optic LAN service to apartments and residential complexes hooked up to our Fiber LAN service and equipped with hanarotelecom LAN facilities. It is useful for professional users and others desiring access to the broadband Internet at a lower flat price as well as for customers that frequently access services requiring symmetrical throughput (equal upload and download), such as e-Learning and e-mail Healthcare services, video chat and peer-to-peer networks. We are able to offer Internet access transmission speeds of up to 100 Mbps.

Cable Modem Services

Our cable modem based services are currently available in 162 service areas and are delivered via HFC cable infrastructure. HFC connections to our data network allow for maximum speeds of 10 Mbps downstream and 700—800 Kbps upstream through the use of cable modems installed at our subscribers’ premises. Compared to the construction of our fiber optic network, our use of existing HFC cable lines to offer broadband Internet access allows us to expand our broadband service coverage area with lower capital

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expenditures. We have not invested in building out our own network in areas where we have established non-exclusive network lease agreements with cable television network system operators and Powercomm to use their HFC cable lines. As of April 30, 2006, approximately 31% of our cable modem subscribers used cable lines that we lease from cable television network system operators and Powercomm. Powercomm, a subsidiary of Dacom, began to provide retail broadband Internet access service from September 2005 and launched aggressive marketing campaigns to acquire subscribers. In part to respond to such marketing, we have increased our marketing efforts and competition in the broadband Internet market has intensified significantly. We may be prevented from continuing to lease our network on similar terms from Powercomm in the future, which may require us to make significant capital expenditures to build our own network in those areas. See “Item 3.D. Risk Factors—Risks Related to the Telecommunications Industry and Our Business—The inability to lease networks from third parties could materially affect our ability to provide services.”

Wireless Services

We also provide wireless last-mile connections to our backbone using B-WLL and WLAN technologies. We commenced our commercial high-speed Internet access services using B-WLL communications technology in July 2000. B-WLL services are marketed primarily to medium-sized businesses and apartment complexes which are not covered by our fiber optic or HFC networks. Our B-WLL services are currently provided in 11 cities, including Seoul and Busan. We commenced providing “hanafos wing” WLAN services in April 2002, which allow Internet access through mobile devices such as notebook computers or personal digital assistants, or PDAs, equipped with a LAN card for users within the coverage of our access points. As of April 30, 2006, we provide WLAN services in approximately 189 access point areas across Korea, including high traffic areas such as hotels, subway stations, shopping malls, colleges and fast food stores.

Voice

We offer corporate and residential customers in Korea, local telephony, VoIP and domestic and international long distance telephony services.

Local Telephony

We are one of two competitors to KT, the dominant operator, in the local telephony market, the other being Dacom. Although KT has a dominant position in this market, we have increased our market share to 6.9% as of April 30, 2006. In addition to local dial tone service and other basic features such as call forwarding, call waiting, dial back and voicemail services, we offer value-added services such as wake-up call and teleconferencing services in order to distinguish our services from those available from KT.

Most of our residential subscribers receive local telephony services bundled with our DSL services. If customers subscribe to our bundled DSL and local telephony services, the monthly base fee for our local telephony service is discounted from Won 4,500 to Won 2,500 per line. We believe the ability to offer local telephony distinguishes our service offerings from that of other communication service providers, except for KT and Dacom, because it allows our subscribers to receive both data and local telephony services through a single provider and thus receive one bill for both service offerings.

Voice over Internet Protocol (VoIP) Services

In April 2002, we commenced providing VoIP services bundled with cable modem-based broadband Internet services to residential subscribers under the name “hanafos cable + voice,” which allow simultaneous use of high-speed Internet and local telephony services. We also provide VoIP services on an unbundled basis to corporate customers. We currently provide VoIP services in Seoul and other major municipal areas. As a result of improvements in VoIP technology and our increased marketing efforts, the number of VoIP lines increased by 34.5% to 325,523 lines as of December 31, 2005 from 241,997 lines as

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of December 31, 2004. As of April 30, 2006, we provided “hanafos cable + voice” services to 346,167 residential subscribers. In December 2004, the MIC decided to allow us to provide local telephony service by way of VoIP, thereby making our VoIP services eligible for fixed-line number portability provided certain conditions are met. Pursuant to these new regulations since December 22, 2004, we have been providing VoIP services as part of our local telephony service offering. In July 2005, we obtained a license to provide 070 Internet telephony services. For a further discussion of these regulations, see “—Competition—Voice.”

Long Distance Telephony

In July 2004, we launched our domestic long distance telephony service and international long distance telephony services. In April 2005, we rolled out “hanafone 3050,” a voice service offering a discount of up to 50% on usage fees at the same basic monthly fees as competitors, to attract subscribers who mainly use domestic and international long distance telephony services.

Leased Line Services

We hold a license to operate leased line services on a nationwide basis in Korea. Our leased line fees vary depending on the distance and bandwidth requirements of our subscribers. Our leased line services enable high volumes of data to be transmitted quickly and reliably. We also provide back-up storage for transmitted data. We use international transmission lines with transmission speeds of over 10 Gbps to provide leased line services to countries such as the United States, Japan and China and have points of presence, commonly referred to as “POP,” facilities in the United States. Our Internet leased line services are provided to companies with LAN facilities through fiber optic cable lines. With the aim of expanding the scope of our Internet leased line services, we have entered into transit or peering agreements with 89 domestic and 327 international Internet leased line service providers.

Other

Internet Data Center

We opened “N-GENE,” our IDC, in May 2000. Through N-GENE, we provide our corporate subscribers with server-based support in the form of co-location and dedicated server hosting. Co-location allows our customers to connect their servers directly to our backbone network at speeds in excess of those available through leased Internet lines. This service is targeted at corporate customers with multiple servers and for those who need broadband circuit capacity. Dedicated server hosting provides our customers with servers customized to their desired specifications. These services are connected to our backbone network at Gbps rates and allow our customers access to dedicated servers without the burden of purchasing or maintaining such servers. As of April 30, 2006, N-GENE hosted approximately 16,500 servers, mostly for corporate customers.

Internet and Related Support Services

Through our “hanafos.com” portal site, which is operated by our subsidiary, Hanaro Dream Corp., we offer to our subscribers a variety of basic on-line services, including personal homepages, free e-mail services, chat services, bulletin board and social communities, and multimedia contents including movies, music, comics, animation, popular on-line games, on-line education, sports, news and television dramas. We intend to continue developing our Internet content business and maintaining a competitive position in this business through Hanaro Dream.

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Sales, Marketing and Customer Service

Sales

We are focused on bringing our high-speed broadband Internet access and voice services to residential users, and Internet dedicated lines and data, leased line services and IDC to corporate users.

Residential

We currently outsource a significant portion of our retail sales force needs. Our outside sales force receives several weeks of training on how to sell our services. The training includes basic instruction on selling techniques, as well as classes regarding our corporate image and our services. Follow-up sessions are held to introduce new services to the sales force. Our outside sales force sells our services through the following channels:

- *Customer Centers.* We have agreements with 92 customer centers and 9 service centers, most of which are located in Seoul. Service centers serve areas with population densities that are lower than the areas served by the customer centers. These customer and service centers sell our services exclusively and contributed to approximately 30% of our total sales in 2005. These centers receive a commission for each service contract and installation contract secured. In addition, we pay these centers for the maintenance and repair work that they perform for our subscribers. Customer and service centers often enter into sub-contracts with smaller distribution outlets within their area to increase their sales coverage and sell through telemarketing.
- *Cable Television Network System Operators and Relay Operators.* As of April 30, 2005, we have arrangements to sell our services with 50 cable television network system operators and 30 relay operators. These arrangements form part of the strategic alliances we have formed with these cable television network system operators and relay operators (see “—Competition—Broadband”). The cable television network system operators and relay operators in each of the areas covered by our cable network leasing arrangements have the right to sell our services within their respective areas. In the event a potential subscriber elects a non-cable service (such as ADSL) that is available in that service area, the subscriber is referred to one of our customer centers.
- *Strategic Sales Distribution Channels.* As of April 30, 2006, we have agreements with 67 strategic sales distribution channels that own nationwide sales channels. Sales through these channels accounted for 28% of our total sales in 2005. Strategic sales distribution channels engage in sales activities for hanarotelecom using various channels such as telemarketers and street vendors, and receive sales commissions based on their sales performance. Currently, we are running a task force to improve the sales channel management and the commission system, which is aimed at enhancing the credibility and loyalty of sales distribution channels.
- *Other Agents.* We use individual sales agents and small sales agencies to sell our services in our coverage areas. Our agents receive a sales commission for each new subscriber.

Corporate

Sales to corporate subscribers are handled through our in-house sales group. Our sales people focus on securing contracts with large commercial complexes, allowing us to install our remote terminals at their premises. After installation, sales people direct their attention to individual corporate clients within these premises. Sales people who have secured contracts with corporate clients remain the primary contacts for all aspects of the client’s needs, including further installation and customer and follow-up service. Our sales force is compensated using an incentive-based performance scheme.

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Others

We also have agreements with providers of other services in order to further expand our sales coverage. We are a party to agreements with certain construction companies pursuant to which we install our network equipment in newly built commercial and residential buildings, which in turn allows builders to advertise their new buildings as “cyber buildings.” In order to add more Internet network game players to our subscriber base, we offer “Game Plus,” popular network games bundled with our high-speed Internet access service.

Marketing

We use a variety of marketing strategies and media to raise awareness of our services. Our marketing strategies include the following:

Broadband

- Strengthening service competitiveness by offering bundled services incorporating broadband, voice and value-added services, as well as providing media content through the TV-Portal service
- Occupying the 100Mbps market by accelerating network upgrades
- Overhauling our distribution channels by building up distribution channel capacity, expanding direct acquisition channels and securing new distribution channels, which will lead to a decrease in subscriber acquisition cost

Voice

- Focusing on target marketing for about 2 million HFC subscribers of Hanaro and Thrunet by utilizing fixed line number portability
- Planning to launch digital wired/wireless integrated voice services which support a variety of value-added services including SMS in the third quarter of 2006

General

- Achieving customer stabilization and business performance by raising brand awareness and credibility through an integrated brand of Hanaro and Thrunet
- Improving service quality by increasing our call center response rate, improving the customer complaint handling process and expanding operating hours

We also organize special events, such as Internet seminars, to promote our services. We spent a total of Won 44.8 billion in 2004 and Won 34.9 billion in 2005 on advertising.

Customer Service

We believe our emphasis on customer care differentiates us from our competitors. We have been voted the best Internet service provider in Korea for the last two years by the Global Customer Satisfaction Competency Index. We provide 24-hours-a-day, 365-days-a-year customer support through four call centers operated by our subsidiary, Hanaro Telephone & Internet Information, Inc., or Hanaro T&I. We also have a customer claims center located within the call centers to handle subscriber claims regarding our service quality and billing. All service representatives receive two months of orientation training and on-site supervisors provide additional support. All calls to the call centers are recorded and service

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representatives are graded periodically based on performance. We strive to answer all calls within 73 seconds. The call centers currently receive approximately 72,092 calls per day. We use automated answering services to respond to routine inquiries, such as account balances. Subscribers can also voice their complaints through e-mail. Common questions or complaints are posted, together with our response, on a bulletin board on our home page. As of May 31, 2006 we employed 1,642 workers in our call centers, each working eight hour shifts. We anticipate that we will continue to hire additional customer support personnel as the size of our subscriber base increases.

Subscribers also have face-to-face access to our representatives at our customer and service centers and to representatives at customer centers operated by cable television network system operators and relay operators with whom we have non-exclusive sales arrangements. Our sales staff at our customer and service centers receive customer service training in addition to their sales training. Our in-house sales people monitor the performance of our customer and service center employees during their visits to these centers.

Relationship with Dreamline

In December 2001, we acquired a 32.2% equity interest in Dreamline, a broadband and leased line services provider. As a result of a third party's investment in Dreamline in early 2004, our equity interest in Dreamline has been diluted and was 14.18% as of April 30, 2005. Accordingly, Dreamline is no longer considered our affiliate for accounting purposes. Under a stock purchase agreement with CJ Corporation, the previous controlling shareholder of Dreamline, CJ Corporation, has an obligation not to compete, directly or indirectly, with us in the leased line and broadband services or other related or similar services for five years from the closing of the stock purchase agreement. However, affiliates of CJ Corporation have been engaged in business in those service areas, and we filed certain lawsuits against CJ Corporation to enjoin its affiliates from providing such services and to seek monetary compensation caused by said violation and CJ Corporation's failure to disclose certain contingent tax liabilities. See "Item 8.A. Consolidated Statements and Other Financial Information—Legal Proceedings."

Information Systems and Billing

Information Systems

We currently use an information system which consists of three separate systems: the customer support system, the operational support system and the business support system. The customer support system handles all information related to an individual subscriber, including customer care and billing information, and marketing and sales data. The operational support system handles all data related to the management of our operations and acts as the interface to the network management system, which monitors the performance of our network and delivery of services on a 24-hour basis every day. This interface allows for quick identification of network faults and relays the information to our customer support system. The business support system handles data regarding internal business operations, including accounting, personnel and our assets. Our operational information system is designed to integrate all of our internal support services. The integration of our internal support services has been substantially completed.

The integration of our operational information system allows management personnel from our customer care, sales engineering, service management, service delivery, accounting and inventory sales departments to access a single subscriber record. Accordingly, a subscriber is able to request support for any of our services with one phone call. By providing comprehensive, real-time customer information, this system is designed to enable our customer service representatives to respond faster to inquiries and to identify more cross-selling opportunities. In addition, credit history information regarding potential and existing subscribers obtained from credit analysis organizations is available through our integrated information system. This allows our sales and operational staff to suspend services to non-paying subscribers with poor credit ratings at an early stage.

In March 2004, we implemented our "Information Strategy Planning" which aims to identify new business opportunities by analyzing the customer information contained in our operational information

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system to create a transparent strategy formulation process and to promote a stable service environment. We also intend to establish CRM and knowledge management systems, an enterprise data warehouse, an enterprise information portal and a disaster recovery center by the end of 2007. On October 1, 2005, we launched the CRM system as part of our Information Strategy Planning in order to provide customized services, enhance customer loyalty and strengthen sales and marketing activities including retention activities. With the CRM system, we are able to support quick, reasonable and systematic decision making based on an understanding of our customers.

Billing

Our billing system is designed to allow our sales and marketing staff some flexibility in designing new pricing plans and service offerings. The subscription terms, deposit requirements and service period for each subscriber are determined in accordance with the subscriber's credit rating. We currently provide joint billing services for subscribers who also subscribe to the long distance and international telephony services of Dacom and Onse Telecom.

The billing system is able to process discounted billing rates for different types of calls and allows subscribers to pay for our services in several ways, including online payment or by direct debit from their bank accounts. Each subscriber may also access a detailed breakdown of services rendered on the Internet. Any bill which has not been paid for one month is actively managed. Services are suspended if a bill remains unpaid for two months and the relevant service agreement is terminated after four months of non-payment. After five months, the collection of any unpaid bill is turned over to debt collection agencies.

Competition

Broadband

In the high-speed broadband Internet access market, our main competition comes from KT. As of April 30, 2006, KT had a 49.9% market share of total broadband subscribers in Korea. In June 2005, the MIC designated KT as a dominant operator for this market, taking into account KT's market share exceeding 50%. See “—Korean Telecommunications Laws and Regulations—Designation of a Dominant Operator.”

We have also faced competition from cable television network system operators and relay operators which have been offering broadband Internet access at steep discounts in an effort to diversify their revenue sources. However, the recent classification of broadband as a facilities-based service means that the cable television network system operators and the relay operators will be required to obtain a license from the MIC to provide broadband services and will become subject to more stringent regulations by the MIC. The MIC has granted the cable television network system operators and relay operators a two-year period to comply with these requirements. The two-year period ends July this year, and the cable television network system operators and relay operators will have to finish reviews to obtain the license by July 20, 2006. If these operators are granted licenses, they will be required to establish an interconnection network and backup networks. This will require additional CAPEX, which in turn will lead to an increase in service costs. Furthermore, due to requirements to notify the MIC of the terms of service and adopt accounting separation as well as stricter regulations imposed by the Fair Trade Commission and the Korea Communications Commission, the cable television network system operators and relay operators will find it difficult to continue low-price marketing. They have been engaged in aggressive marketing to acquire as many broadband subscribers as possible before July 2006. In addition, we have entered into over 80 strategic alliances with cable television network system operators and relay operators for the purposes of establishing mutually beneficial arrangements with respect to the provision of broadband Internet access, marketing, sales and customer services. In general, we have agreed to outsource to the cable television network system operators and relay operators our sales, marketing and customer service functions in return for our use of their last-mile connection networks and our acquisition of their broadband Internet subscriber base. For further detail on our relationship with cable television network system operators, see “Item 7.B. Related Party Transactions—Relationships with Cable Television Network System Operators.”

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Since late 2004, Dacom has been strengthening its retail broadband Internet access business by using the network facilities of Powercomm, and launching LAN-based Internet services. In August 2005, the MIC granted Powercomm an NSP license to provide broadband services telecommunications. Powercomm, which had been leasing network facilities to retail telecommunications business operators, entered the retail broadband Internet access market in September 2005. After Dacom, the parent company of Powercomm, transferred its retail broadband Internet access business to Powercomm, the two companies accounted for 5.8% of the broadband Internet market as of April 30, 2006. In just one month after entering the retail broadband Internet access market, Powercomm was subject to an order of suspension of business for 19 days from October 10, 2005 issued by the Korea Communications Commission for violating an Internet interconnection agreement with Dacom.

DSL (ADSL & VDSL)

KT is our only competitor that is not limited in the coverage of its services by the coverage of its network. KT, as the dominant telecommunications carrier, has a nationwide copper wire last-mile network and an extensive fiber optic backbone network throughout Korea and has significantly greater capital resources than we do. KT currently provides ADSL services and is upgrading its last-mile connections and related transmission facilities to provide DSL services to its subscribers at speeds comparable to ours. KT is focusing its upgrading process and marketing efforts in our targeted high density, high demand areas and is continuing to increase the marketing of its long-reach VDSL services to single resident houses located among apartment complexes. As of April 30, 2006, KT and hanarotelecom had market shares of approximately 84.4% (based on MIC data) and 14.2% (based on MIC data), respectively, in the DSL services market in Korea. With the broadband Internet market reaching saturation, 100Mbps services including optical LAN are driving market growth. In these circumstances, Powercomm entered the market in September 2005 and has been expanding its market share by strengthening its marketing activities with its 100Mbps fiber optic LAN service. As of April 30, 2006, KT had 43.3% of the fiber optic LAN market while hanarotelecom and Powercomm had 29.0% and 9.0%, respectively (based on MIC data).

Cable Modem

Thrunet has been our main competitor in the cable modem market. We, together with Thrunet and Onse Telecom, utilize almost all of Powercomm's cable networks for the provision of our cable modem services. Our cable lease agreements with Powercomm are not exclusive and, accordingly, Powercomm may lease the cable networks we are currently leasing to additional service providers. In addition, we may be prevented from continuing our lease agreements with Powercomm on similar terms if Dacom, together with its subsidiary Powercomm which began to provide retail broadband Internet access service from the second half of 2005, expands its business in the retail broadband Internet access market by using Powercomm's network. See "Item 3.D. Risk Factors—Risks Related to the Telecommunications Industry and Our Business—The inability to lease networks from third parties could materially affect our ability to provide services." Dreamline provides services through smaller, localized cable networks owned by cable television network system operators.

Voice

In the local telephony market, we and Dacom are the only competitors to the dominant operator, KT. As of April 30, 2006, we and KT had a 6.9% and 92.9% market share, respectively, in the local telephony market. Dacom was granted a local telephony license in July 2004 and commenced its commercial local telephony services in January 2005. Dacom has a mere 0.2% of the local telephony market share. Fees charged by KT for local telephony services are currently regulated by the MIC while we are only required to report our fees charged for local telephony services to the MIC. The MIC will not allow KT to charge fees which it deems to be unreasonable and against public interest. See "—Korean Telecommunications Laws and Regulations—Designation of a Dominant Operator." In addition, as the local common carrier, KT is under a "universal service" obligation to provide its local telephony services to all subscribers requesting service. We do not have a universal service obligation and are able to focus the

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roll-out of our services to areas with high density populations and households with greater than average disposable income.

Our main competitors in the domestic and international long distance telephony markets are KT, Onse Telecom, Dacom and SK Telink. According to the MIC, as of April 30, 2006, our share of the domestic long distance telephony market was 5.1% and KT had the largest share with 85.6%, based on the number of lines for which subscribers have designated certain operators as their preferred long distance operators.

There are currently two types of VoIP services on offer in Korea. SSPs, which are mostly cable television network system operators and Internet portal operators, provide VoIP services which allow calls to be made but not received. VoIP services which allow calls to be made and received (often referred to as “two-way VoIP”) could only be provided, until recently, by service operators with a local telephony license. To date, we are the only significant provider of two-way VoIP using a standard eight-digit telephone number. While KT has not been pursuing this market actively, Dacom has announced its intention to provide two-way VoIP by November 2005. On October 1, 2004, the MIC announced a decree authorizing the provision of two-way VoIP service using an eleven-digit number with a dialing prefix of “070.” Currently, facilities-based telecommunications business operators and specific telecommunications business operators are offering the two-way VoIP service. Two specific telecommunications business operators, Samsung Networks and Anyuser.Net, launched the “070” service for the first time in August 2005, followed by facilities-based telecommunications business operators, such as KT in November 2005 and hanarotelecom and SK Telink in December 2005. Furthermore, Korea Cable Telecom, a nationwide consortium of cable television operators, plans to gain a license to provide the VoIP service and launch its service in 2006. Separately, the MIC adopted a set of new regulations on December 13, 2004, which allows licensed local telephony carriers, including us, to provide local telephony service by way of VoIP provided that certain technical and regulatory requirements are met. These requirements include improving the voice quality to a certain level, charging VoIP subscribers different usage rates between local telephony and domestic long distance services, and providing free emergency call services. We have met these requirements, and have been providing VoIP-based local telephony service in our HFC areas since December 22, 2004. In addition, because this type of VoIP service is considered a local telephony service under the new regulations, our VoIP-based local telephony service is currently eligible for fixed-line number portability.

Leased Line Services

In the leased line services market there are currently seven major service providers in Korea. As of April 30, 2006, we believe our market share in terms of revenue was 2.9% while KT, with 53.1% in terms of revenue, had the largest share of the leased line market, followed by Powercomm with 15.7% and SK networks with 13.5%. Competition in this market is primarily based on price, network coverage and quality. In order to provide leased line services, a service provider must have a license to provide network services.

Other

In the IDC services market, there are currently three major IDC service providers in Korea: KT, Dacom and Hanaro (N-GENE). Competition in this market is primarily based on price and service quality. Some of these major providers are expanding their service capacities. In addition, approximately 10 small and medium-sized data centers provide IDC services similar to ours.

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Licenses

NSP License

Under the Korean Telecommunications Business Law (Law No. 4394 of August 10, 1991, as amended), the telecommunications services that Network Service Providers, or NSPs, which are facilities-based telecommunications service providers, may provide are restricted to those for which it has received a license from the MIC. To date, we have received the following types of NSP licenses from the MIC. In October 1997, we received our perpetual license to provide fixed-link local telephone service on a nationwide basis in Korea. The founding shareholders of our company paid a one-time fee of Won 45.0 billion for such license. In August 1999, we obtained a perpetual license to provide domestic leased line services, for which we paid a one-time fee of Won 1.9 billion. In February 2000, we obtained a perpetual license to provide value-added telephone services relating to long distance telephone services and international telephone services, for which we paid one-time fees of Won 0.3 billion and Won 0.1 billion, respectively. In August 2000, we obtained a perpetual license to provide international leased line services for which we paid a one-time fee of Won 0.2 billion. In January 2003, we obtained a perpetual license to provide long distance telephony services, including inter-city and international services. Additionally, in October 2004, we obtained a perpetual license to provide broadband services as a result of recent amendments to the enforcement regulations of the Telecommunications Business Law. In July 2005, we obtained a perpetual license to provide 070 Internet telephony services. Our licenses to provide such NSP services are subject to satisfaction of certain terms and conditions, including the following:

- The licenses require us to make annual contributions to the Information Promotion Fund for the purpose of research and development pursuant to the Telecommunications Business Law. Only the NSPs whose total broadband, voice and leased line services revenue amount for the preceding year was more than Won 30.0 billion (provided that broadband revenue will only be counted towards this threshold from 2005 onwards), and that realized a net profit in the preceding year, are required to make annual payments for the purpose of research and development in the amount of 0.5% of the total broadband, voice and leased line services revenue, to the extent that the amount of such payment does not exceed the amount of the net profit for the preceding year. In the case of a dominant operator, the amount is 0.75% of such revenue. The “net profit” which the MIC will use in its determination of the amount of our contribution is calculated using MIC accounting standards which differ in certain respects from Korean GAAP.
- We must comply with the business plan submitted to the MIC in all material respects. If necessary, the business plan may be revised in accordance with the procedures set out in the “Guidelines for Handling of Change of Business Plan of Network Service Provider.” The initial service fee must be in compliance with the business plan. We must report to the MIC the general terms (including the service fee of each service) together with supporting documentation.

We are not required to pay any fees to the Government in connection with its approval of us as an NSP.

SSP License

In June 1998, we also registered as a Specific Service Provider, or SSP. This registration is for an indefinite term. As an SSP, we are permitted to provide the following services:

- By utilizing our own switching facilities and other telecommunications facilities owned by NSPs, resell or provide the same types of telecommunications services as those of domestic NSPs.

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- By leasing telecommunications facilities owned by other NSPs without its own switching facilities, resell the same types of telecommunications services as those of domestic NSPs.
- By utilizing our own facilities, provide telecommunications services within a specific building.

Our registration as an SSP requires that, prior to the commencement of commercial operations, we submit to the MIC detailed information on the location of our principal facilities and the structure of our network.

We are not required to pay any fees to the Government in connection with our registration as an SSP.

Cable TV Network Operator License

Pursuant to the Integrated Cable Broadcasting Law (which was subsequently replaced by the Broadcasting Law), we were designated by the MIC in June 1999 as a network operator in the cable television industry. As a network operator, we are permitted to install, operate and lease network facilities to cable television network system operators and relay operators in 57 regions throughout Korea. No fees are required to be paid to the Government in connection with such designation.

Our designation as a network operator requires that we establish the transmission network in compliance with the technical standard set forth in Article 25 of the Telecommunications Basic Law (Law No. 4393 of August 10, 1991, as amended) and obtain “fitness confirmation” from the MIC prior to providing network facilities to cable television network system operators under Article 80 of the Broadcasting Law. We have obtained fitness confirmations from the MIC prior to each provision of these network facilities.

Wireless Frequency Allocation. In February 1998, we obtained the right to the WLL frequency of 2.3 GHz bandwidth for 20MHz down- and up-stream transmission. In August 1999, we obtained the B-WLL frequency of 26 GHz for 360 MHz down- and 150 MHz up-stream transmission. These rights are for an indefinite term and no fees are required to be paid to the Government in connection with such rights. In February 2002, the MIC announced its plans to allocate 100 MHz of the WLL frequency to WiBro services after June 2005.

International Common Carrier Authorization in the United States. In July 2000, hanarotelecom America, our U.S. subsidiary, obtained a Section 214 authorization from the U.S. Federal Communications Commission. This authorization authorizes hanarotelecom America to operate as a facilities-based international common carrier and to resell the international services of authorized U.S. common carriers. On December 15, 2004, we filed an application for the liquidation of hanarotelecom America with the U.S. state and federal authorities. Upon liquidation, we will cease to have this authorization and our international common carrier services will be provided through DVS, with which we have entered into an alliance agreement.

Interconnection

We have entered into interconnection agreements that allow for interconnection of our telecommunications facilities and those of other telecommunications operators. These interconnection agreements allow our customers to connect to the networks of other telecommunications operators and receive telecommunications services, such as local, long distance and international call, Internet telephony, cellular phone call, personal communication and Internet access services, through our network. Pursuant to the Telecommunications Business Law, a telecommunications service provider is required to enter into interconnection arrangements with any other telecommunications service provider that requests interconnection. In the event a dispute arises between interconnecting parties, the Communications Commission is to act as the arbitrator. In addition, the MIC issues guidelines regarding interconnection. The guidelines generally require that interconnection charges be based on the rates set by the MIC after examining the costs to regulated operators, such as KT and mobile service operators (such as SK Telecom,

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KT Freetel Co., Ltd. and LG Telecom Co., Ltd.), of carrying a call. The regulated operators are required to calculate such costs every other year. The MIC determines the interconnection rate after the MIC reviews the cost of KT and mobile phone service providers every other year. In July 2004, the MIC determined, for the 2004 to 2005 period, that the fixed line interconnection rate be increased from Won 11.3 to Won 16.2 per 60 seconds and no interconnection fee be charged for a certain portion of the land-to-land telephone calls switched between the networks of hanarotelecom and KT.

We have entered into interconnection agreements with all major telecommunications service providers in Korea. The chart below sets forth the type and name of service providers with which we have such agreements:

Type	Name of Providers
Local	KT; Dacom
Domestic long distance	KT; Dacom; Onse Telecom; SK Telink
International	KT; Dacom; Onse Telecom; SK Telink
Internet telephony	KT; Dacom; SK Telink; SK Networks; Dreamline
Cellular	SK Telecom
Internet access ⁽¹⁾	KT; Dacom; Onse Telecom; SK Networks; Dreamline; EPN
Personal communication service providers	KT Freetel Co., Ltd.; LG Telecom Co., Ltd.

(1) We will enter into an interconnection agreement for Internet access with Powercomm in the near future.

Korean Telecommunications Laws and Regulations

Overview

Korea's telecommunications industry is subject to comprehensive regulation by the MIC pursuant to, among others, provisions of the Telecommunications Basic Law, the Telecommunications Business Law and the Radiowave Act (Law No. 6197 of January 21 2000, as amended) (collectively, and including subordinate regulations promulgated thereunder, the "Telecommunications Laws"). In addition to the Telecommunications Laws, industry participants are subject to other telecommunications regulations and regulations under various laws of general application. The Telecommunications Laws empower the MIC to regulate and supervise, among other things, entry into the telecommunications industry, allocation of radio spectrum, the scope of permissible business of telecommunications service providers, technologies used by telecommunications service providers, rate-setting, deposit requirements, the focus and budget of research and development, user protection and interconnection and facilities sharing between telecommunications service providers. In addition, the MIC is in charge of and responsible for informatization, information and communications industry, telecommunications services, radio and broadcasting, postal service and postal finance.

Telecommunications Laws

Under the Telecommunications Basic Law and the Telecommunications Business Law, telecommunications service providers are currently classified into three categories: NSPs, SSPs and Value-added Service Providers, or VSPs. We are classified as an NSP and also registered as an SSP. An NSP provides specified types of telecommunications services as stipulated under the Telecommunications Business Law ("Network Services") and as licensed by the MIC, in most cases with its own telecommunications networks and related facilities. As an NSP, we have licenses to provide local telephony services, 070 Internet telephony services, long distance and international telephony services, leased line services (domestic and international) and Internet access services. These licenses are for indefinite terms.

Network services to be provided by an NSP include local, long distance and international telephone services, subscribed telegraph services, leased line services, services through allocated radio frequencies (including cellular communications services, paging services, PCS services, IMT-2000 services

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and trunked radio system services), Internet access services and such other services as designated by the MIC (including certain VoIP services). VSPs provide telecommunications services other than those services specified for NSPs, such as data communications using facilities leased from an NSP following notification to the MIC. The newest category of service providers, the SSPs, is intended to occupy a middle ground between NSPs and VSPs. The Telecommunications Business Law provides that there are three types of SSP licenses as follows:

- type 1 reseller licenses for entities that have their own switching facilities and resell or provide the Network Services;
- type 2 reseller licenses for entities that do not have their own switching facilities and resell the Network Services; and
- intra-building telecommunications service provider licenses for entities that provide telecommunications services within a specific building area through their own facilities.

Ownership Restrictions

Under the current Telecommunications Basic Law and the Telecommunications Business Law, an NSP, such as hanarotelecom, must be an entity incorporated in Korea (other than the Government and any municipal government) in order to qualify for a license from the MIC. In addition, the Telecommunications Laws restrict the ownership of NSPs by certain shareholders. Ownership interests in NSPs are subject to the following ownership restrictions:

- a foreign government or a foreigner may not own more than 49.0% of the aggregate number of the entity's issued and outstanding voting shares, including stock-equivalents and investment securities having voting powers such as depositary receipts. For this purpose, an entity whose voting shares are held by a foreigner or a foreign government that, together with specially-related parties, is the largest shareholder and holds 15.0% or more of the total number of voting shares issued and outstanding, is also deemed a "foreigner"; provided, that if such entity owned by a foreigner or a foreign government holds less than 1.0% shares in the relevant NSP, it is not regarded as a "foreigner." In the event a foreign government or a foreigner owns shares in excess of the shareholding restriction, the holders of shares in excess of such limitations cannot exercise the voting rights with respect to the shares exceeding such limitations, and the MIC may require the "foreigner" who has acquired shares in violation of such restriction, the violating NSP or the shareholder of the violating foreign entity to take corrective measures to comply with such restriction within a grace period of six months. The MIC may also impose on a non-compliant violator a mandatory performance fee within 3/1000th of the purchase price of the share per day (or up to Won 0.1 billion for cases that do not relate to shareholding); and
- under the Telecommunications Business Law, if an NSP that is subject to mandatory interconnection requirement (currently, KT and SK Telecom), together with specially related person(s), acquire shares in another NSP, which is subject to a mandatory interconnection requirement, in excess of 5%, the acquiring NSP cannot exercise the voting rights with respect to the shares exceeding such limitation, subject to certain exceptions.

Under the Telecommunications Business Law, the MIC may review whether any investment in, or change in the control or business management of, an NSP by means of any of the following transactions impairs national security, public interest, or social order:

- owning 15% or more of total outstanding shares of the NSP in concert with specially-related person(s);
- a change in the largest shareholder of the NSP;

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- the NSP or its shareholder entering into an agreement with a foreign government or a foreigner on important business management matters, such as the appointment of representative directors or officers of the NSP, the transfer of the NSP's business or engaging in a new Network Service by the NSP; or
- an agreement by shareholders of the NSP (none of which is the largest shareholder) to exercise their voting rights in concert so that there is a de facto change in the management of the NSP.

If any of the above events occur with respect to the NSP, the NSP or the shareholder of the NSP is required to report to the MIC within seven days of the occurrence of such event.

In its implementing regulations, the MIC designated KT and SK Telecom (both currently designated as dominant operators) as the carriers subject to the foregoing rules and the MIC will set up a Public Interest Review Committee to implement the foregoing. If the MIC finds a violation, it may order an amendment or suspension of the relevant contract, suspension of the voting rights or the sale of shares. The MIC may also impose on a non-compliant violator a mandatory performance fee of up to 3/1000th of the purchase price of the share per day (or up to Won 0.1 billion for cases that do not relate to shareholding).

Authority of the MIC and the Communications Commission

The MIC has the authority to require NSPs, as a condition to granting the license, to contribute towards the Informatization Promotion Fund, a government-managed fund for national research and development of telecommunications technology and related projects, pursuant to the License Application Guidelines, a notification issued by the MIC. Currently, we are required to contribute 0.5% of the total annual service revenues derived from our voice and leased line and broadband services which are classified as facility-based telecom services in the event that we have net income for the preceding year. The "net profit" which the MIC will use in its determination of the amount of our contribution is calculated using MIC accounting standards which differ in certain respects from Korean GAAP.

The MIC may revoke an NSP's license. The grounds for revocation include fraud in obtaining the license, failure to perform the conditions imposed by the MIC upon issuance of the NSP license, failure to comply with any corrective order issued by the MIC in connection with non-compliance with foreign shareholding restrictions, failure to commence business within the time period designated by the MIC, failure to abide by the standard terms and conditions for the services either reported to or approved by the MIC and failure to comply with the Telecommunications Laws, the Act on Information Communication Network Promotion and Information Protection, the Informatization Promotion Law or any order issued under such laws. If an NSP wants to cease its business (or any part of it) or dissolve, such NSP must obtain MIC approval. In addition, instead of suspending its license, the MIC may impose fines against such telecommunications service provider, subject to certain exceptions, of up to 3.0% of the entity's average sales revenues generated from the service in violation of such regulation during the three years preceding such violation.

The Communications Commission also has the authority to monitor unfair business practices as specified in the Telecommunications Business Law by telecommunications service providers in accordance with the Telecommunications Business Law. If an NSP or any telecommunications service provider engages in such activities, the Communications Commission may order such telecommunications service provider to take certain actions, including (1) separating the internal organization of telecommunications service provider, (2) changing its internal accounting regulations, (3) disclosing certain information regarding the services, (4) executing, performing or amending an agreement between telecommunications service providers, (5) changing its articles of incorporation, or the standard terms and conditions of services, (6) discontinuing violation of the law, (7) making a public announcement of the fact that a corrective order was issued, (8) taking measures necessary for the rectification of any violation, such as the removal of telecommunications facilities which gave rise to the violation, and (9) other actions specified in the Presidential Enforcement Decree. In addition, if the Communications Commission finds that a service

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provider has conducted unfair business activities, including the implementation of a pricing structure that restricts fair competition or that is against the interests of service users, it may order the service provider to take corrective measures or impose an administrative fine of up to 3.0% of the service provider's average annual revenues for the three years preceding the violation.

Under the Telecommunications Business Law, telecommunications service providers may request other service providers to interconnect to their networks for the purpose of offering other services. Telecommunications service providers may not, without any justifiable reason, refuse to enter into such interconnection agreements with other telecommunications service providers requesting such interconnection. In the event an agreement between the service providers is not reached within 90 days, either service provider becomes entitled to file an application for mediation before the Communications Commission. We have entered into interconnection arrangements with most major service providers in Korea, including KT, Dacom, Onse Telecom and other NSPs, and expect that we will enter into more interconnection agreements as additional licenses for telecommunications services are issued.

Designation of a Dominant Operator

As an NSP, we must report to the MIC our standard terms and conditions of service containing, among others, rates and the contractual terms for each type of service we provide. In addition, an NSP that has a dominant market share for a specified type of service must obtain prior approval from the MIC with respect to its proposed standard terms and conditions of service, including the rate, if its revenues from such service for the previous year exceed a specific revenue amount set by the MIC.

Each year, the MIC may designate, pursuant to regulations, the NSPs that require MIC approval. Other than the market share and the market influence of the relevant NSP, the MIC may consider such other factors as it may deem appropriate in making these designations. On June 8, 2004, the MIC designated the local telephone service of KT and the mobile service of SK Telecom as requiring prior MIC approval. The MIC requires fees and charges, in terms of the methods of their calculation, to be adequate, fair and objective. The MIC may order changes in the standard terms and conditions, including rates, if it deems the terms to be unreasonable and against public interest.

In June 2005, the MIC designated KT as a dominant market operator for the market, taking into account KT's market share exceeding 50%.

Licensing

Under the Telecommunications Business Law, the MIC promulgated a regulation specifying a detailed standard of review, application method and application period for each new NSP license. Upon receipt of the application, the MIC considers various factors in its approval process, including reasonableness of the service provision plan, size of facilities for the services, financial and technical soundness of the applicant, results of development of technology and plans for new technological developments.

Frequency Allocation

The MIC has the discretion to allocate and adjust the frequency band for each type of service. Upon allocation of new frequency bands or adjustment of frequency bands, the MIC is required to give a public notice. The MIC also regulates the frequency to be used by each radio station. We have been allocated the frequency of 2.3 GHz band for 20 MHz downstream and upstream transmission and the frequency of 26 GHz band for 360 MHz downstream and 150 MHz upstream transmission.

Bundling of Services

The Presidential Enforcement Decree of the Telecommunications Business Law currently prohibits any telecommunications service provider from offering bundled sales of telecommunications services or products that the MIC determines to be adverse to consumer interests. In making this

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determination, the MIC may weigh the advantages of cost-savings or increased convenience for the consumers as a result of bundling against the disadvantages of any anti-competitive effects of bundling. According to the Decree, commencing in March 2007, only NSPs (including us), but not non-NSP service providers, will be subject to such review by the MIC and potential bundling prohibitions pursuant to this Decree.

Other Laws

Companies that operate network facilities for cable TV transmission are required to register with the MIC under the Broadcasting Act (Law No. 6139 of January 12, 2000, as amended). We are registered as a service provider under this statute. However, as an NSP, we are not currently permitted to provide broadcasting services under certain other laws and regulations, including the Broadcasting Act.

The Foreign Exchange Transaction Law, the Foreign Investment Promotion Law and their regulations require companies, such as hanarotelecom, to obtain approval from, or file a report with, a foreign exchange authority in connection with any foreign direct investment. The relevant governmental authority may be the Ministry of Finance and Economy, or MOFE, The Bank of Korea or the designated foreign exchange bank. The type of approval or report required depends on the type of business engaged in by the investor and/or the amount of the investment being made.

Monopoly Regulation and Fair Trade

If we are deemed a market-dominating business entity, we may be subject to certain regulations under the Monopoly Regulation and Fair Trade Act. In determining whether an entity is a market-dominating business, the FTC reviews the entity's market share, the existence and severity of barriers to entry to the market concerned, the relative size of the entity's competitors and other factors.

In the case of abusive business practices by a market-dominating business entity, the FTC may order such entity to cease and desist from such business practices, publicly announce that it has engaged in abusive business practices and/or take other corrective measures it deems fit. The FTC may also impose fines of up to 3% of the entity's average sales revenues during the three years preceding the violation. In addition, a violation of the Monopoly Regulation and Fair Trade Act can bring about criminal sanctions. The violating entity may be fined up to Won 0.2 billion or its representative(s) may receive sentences of imprisonment of up to three years, although imprisonment is rarely, if ever, imposed.

Under the Monopoly Regulation and Fair Trade Law, a service provider that is found guilty of horizontal collusion with other providers may be subject to fines of up to 10% of the total revenues derived from the collusion.

Intellectual Property

As of May 31, 2006, we held 146 registered trademarks, 89 program copyrights, 40 registered patents and two registered industrial design rights in Korea. As of May 31, 2006, we also had 5 trademark applications and 467 patent applications (which includes 143 international applications under the Patent Co-operation Treaty) pending at the Korea Industrial Property Office. While we consider all of our intellectual property to be important, we do not consider any one or group of patents, trademarks or industrial design rights to be so important that their expiration or termination would materially affect our business.

C. Organizational Structure

As of April 1, 2001, we and our Korean affiliates have been designated as member companies of a "business group subject to restrictions on debt guarantees" as well as a "business group subject to restrictions on mutual shareholding" by the FTC based on the new criteria prescribed by the amended Monopoly Regulation and Fair Trade Act. Under the amended Monopoly Regulation and Fair Trade Act, a member company of both the "business group subject to restrictions on debt guarantees" and the

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“business group subject to restrictions on mutual shareholding” is subject to, among others, the following restrictions: subject to certain exceptions, such company (1) shall not acquire or own shares of an affiliate company which acquires or owns its shares; nevertheless, for newly designated companies, the application of this restriction is waived for one year from the date of such designation; and (2) shall not provide payment guarantees with respect to loans extended by certain Korean financial institutions for its domestic affiliates.

The following table lists information concerning the significant subsidiaries and affiliates of hanarotelecom:

Name	Jurisdiction of Incorporation	Percentage of Ownership and Voting Interest held by hanarotelecom as of May 31, 2006
Hanaro Realty Development & Management Co., Ltd	Korea	99.99%
Hanaro T&I	Korea	99.99
Hanaro Dream ⁽¹⁾	Korea	57.02
Hanaromedia ⁽²⁾	Korea	65.00

- (1) In July 2004, we purchased 57.02% of Hanaro Dream’s total issued and outstanding shares from Dreamline and other major shareholders of Hanaro Dream.
- (2) On March 13, 2006, we purchased shares of CelrunTV for Won 5.5 billion , and on May 2, 2006, acquired additional shares of CelrunTV for Won 6.5 billion. CelrunTV changed its name to hanaromedia, Inc.

We sold all of our shareholdings in two of our previous affiliates, Hanaro WEB(n)TV Co., Ltd. and Mediaholdings Co., Ltd. to the Joong-Ang MSO in March 2005. In addition, in December 2004, we completed the liquidation of our previous affiliate, hanarotelecom America.

Also, we completed integration of Thrunet on January 1, 2006 and acquisition of CelrunTV on March 13, 2006. CelrunTV changed its name to hanaromedia, Inc. and became an affiliated company of hanarotelecom as of May 3, 2006.

D. Property, Plants and Equipment

Facilities

Our principal fixed assets consist of transmission facilities and telecommunications equipment and information centers located throughout Korea. We own two central telecommunications centers in Seoul, for the purposes of managing our nationwide network. The area of each such center is approximately 15,000 square meters. We also own four regional telecommunications centers in Busan, Taegu, Kwang-ju and Taejeon, to manage the networks in those regions. The area in square meters of such centers is approximately 5,900, 6,900, 8,400 and 4,300, respectively. Those centers are equipped with exchange and transmission equipments.

We also have 34 exchange offices equipped with exchange equipments in 20 cities including Seoul, Busan, Taegu, Taejeon and Kwang-ju. We own 31 of those offices and lease the remaining three offices. We also have 38 transmission offices equipped with transmission equipments in 23 cities including Seoul, Busan, Taegu, Taejeon and Kwang-ju. We own 33 of those offices and lease the remaining 5 offices.

We lease our head office located in the Asia One Building in Yeongdeungpo-gu, Seoul.

Of the net book value of our total plant, property and equipment as of March 31, 2006 (excluding construction in progress), transmission facilities and telecommunications equipment represented 87.7%, buildings and real property represented 11.3% and other assets represented 0.9%. As of March 31, 2006, our fiber optic network consisted of 33,412 kilometers of owned and leased lines.

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We believe that our existing facilities are adequate for current requirements and that additional space can be obtained on commercially reasonable terms to meet future requirements.

Network

Our subscribers are connected to our network either through fiber optic lines to the subscribers' premises or through the use of HFC lines in areas in which we have built or leased cable networks. We began delivery of commercial services through wireless last-mile connections in Seoul in July 2000.

Backbone Network

Our high-speed broadband Internet access services and our telephony services are currently provided over our fiber optic backbone network and last-mile connections consisting of 20,258 kilometers of owned and 9,487 kilometers of leased fiber optic cable. Through the merger with Thrunet, we have been able to significantly increase our owned or leased fiber optic cables. Our backbone network is a WDM-based ring type backbone with duplicate routers to ensure high system reliability. We utilize advanced switches and other technologies in our backbone network to ensure high quality and fast transmission. Our system utilizes technologies that offer the following advantages over traditional networks:

Deployment of Gigabit IP Network over WDM Backbone Systems. Our data network utilizes Gigabit IP routers over 800 Gbps and 40 Gbps wavelength division multiplex, or WDM, systems, which offer greater transmission speed capability than traditional backbone network. The maximum transmission speed currently is 10 Gbps. We also deploy ATM switches which aggregate ADSL and dedicated access lines.

CCS7 Signaling Method. Our voice network utilizes the CCS7 signaling method, which allows us to offer advanced value-added services, such as fixed-line number portability, and to process our calls more efficiently.

V5.2 Protocol to Increase Voice Network Efficiency. We were the first in Korea to provide services using the V5.2 protocol. KT is using this protocol in a small number of apartment complexes. This protocol allows us to efficiently connect multiple subscribers to our fiber optic network through a single fiber optic connection by using remote terminals that are installed at the subscriber's premises. Our network lines have been installed using existing infrastructure, including subway routes and electrical poles, in order to minimize the cost of our roll-out. Our backbone network has been built using equipment based on a number of technologies developed by third party vendors, including Lucent Technologies, Cisco Systems, Alcatel and NEC Corporation. We believe that telecommunications network technologies have been standardized and are generally compatible with each other, so that equipment and hardware provided by different vendors can be used within an integrated network and we are not dependent on any one particular vendor for the procurement of important network equipment.

We have our own POP facilities in Palo Alto and Los Angeles in the United States and in London, United Kingdom. Our backbone network has direct links of 10 Gbps to these POP facilities in the United States and the United Kingdom via our own cable capacity and leased circuit. In addition, we are working with all Korean Internet exchanges and major ISPs for domestic Internet interconnection, including DACOM IX, Korea-Internet Neutral Exchange and KT-IX.

We have the right to use the following international leased lines on various submarine cables connecting the United States, Asia and certain parts of Europe until the end of the economically useful life of such cables.

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Connecting Points	Providers	Bandwidth Capacity Quantity	Acquisition Cost (billions of Won or millions of U.S. dollars)
Korea — US	Iljin C2C Ltd.; Onse Telecom; Asia	30 x STM-1	\$49
	Global Crossing; Dacom Crossing;	6 x STM-4	
	Flag Telecom; Dacom		
Korea — Japan	Iljin C2C; Teleglobe Dacom;	14 x STM-1	\$19.8
	Teleglobe Onse Telecom	1 x E-1	
Korea — Hong Kong	Onse Telecom	19,158km	\$1.2
	HGC		\$2.5
Japan — US	Teleglobe; Metromedia Fiber Network	3 x STM-1	\$1.3
Japan — US	Cable Network	2 x STM-1	\$5.8
Korea — Vietnam	Dacom	2 x Half E-1	Won0.2
Korea — Belgium	Dacom	2 x Half E-1	Won0.2
Korea — Singapore	Iljin C2C	1 x Half STM-1	\$0.4
Korea — China	Enterprise Networks	1 x Half STM-1	\$1.0
US — UK	France Telecom; British Telecom;	4 x STM-1	\$0.9
	Onse Telecom; FLAG Telecom	1 x DS-3	
		1 x STM-4	

- (1) Each STM-1 represents a bandwidth capacity of 155 Mbps.
- (2) Each E-1 represents a bandwidth capacity of 2 Mbps.
- (3) Each STM-4 represents a bandwidth capacity of 622 Mbps.

In addition, we have agreements with foreign ISPs, such as Level3, Verio, AboveNet Communications, Inc., AT&T and Teleglobe, for global Internet Protocol transit services.

Our backbone network has been deployed in 83 cities and 58 districts, including Seoul, Busan, Incheon, Taegu and Ulsan. Each of the ten local loops is interconnected by 800 Gbps and 40 Gbps WDM backbone networks.

We have expanded our voice network to 52 cities for PSTN and VoIP services. PSTN is in service in 32 cities and districts, and VoIP in 52 cities and 4 districts. After taking into account the overlapping coverage areas between the two services, our voice services are available in 52 cities and 4 districts in total.

Fiber to the Office and the Curb

We connect subscribers in large commercial buildings and apartment complexes with over 150 units to our backbone network through fiber optic connections directly to the premises. These subscribers have three basic options in the mode of service to be used to secure access to our data network.

DSL. Subscribers in large apartment complexes and buildings can receive our services by installing ADSL or VDSL modems in their offices or homes that allow our services to be provided through existing copper lines within the building. Our subscribers' premises are then connected to our backbone network through fiber optic last-mile connections. Single residential households and small apartment buildings located within a one kilometer radius of certain of these large buildings can also receive DSL services through copper connections we install from the remote terminals located in the large buildings. These additional services are provided in order to maximize the return on expensive remote terminals and other equipment installed in connection with our fiber optic connection services.

Ethernet (LAN). In August 2001, we introduced the "e-Valley" service, which connect subscribers to a remote router in each apartment complex via a LAN cable instead of copper wire. The remote router is, in turn, connected to our backbone network through fiber optic cable. Our fiber optic LAN service operates at a maximum speed of 100 Mbps. As of March 31, 2006, we were providing e-Valley service to 2,612 apartment complexes.

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Internet Direct service. Large corporate subscribers often find dedicated line service to be the most cost effective means of securing high-speed data transmission capability. Our dedicated line service, which we call “Internet Direct” service, is provided through our ATM-based network and Gigabit routers at maximum speeds of up to 10 Gbps.

Hybrid Fiber Coaxial

We currently provide our cable modem high-speed Internet access through hybrid fiber coaxial connections in 118 service areas. These HFC connection services are provided over our own cable network in 50 service areas, Powercomm’s cable network in 62 service areas and other cable television network system operators’ cable networks in 55 areas. The approximate number of homes within these areas is 9.6 million.

We have agreements with 80 (including 50 Ros and 30 SOs) cable television network system operators in 55 service areas as of March 31, 2006. Each of these cable television network system operators is responsible for maintaining subscriber lines and subscriber relationships within its service area. The cable television network system operators in the service areas in which we own a network also provide cable television services to subscribers. Most of the agreements are for three to five year terms that are automatically renewed absent termination by either party.

The head-end of each system operator is connected to our regional data center at a maximum speed of 1 Gbps, either through self-constructed fiber optic lines or through lines leased from other telecommunications companies. We currently provide services using HFC lines at a maximum speed of ten Mbps downstream and 600—700 Kbps upstream. As of March 31, 2006, our HFC cable network covered 9,566,946 households and 2,136,077 subscribers were provided with our services through HFC connections. As of March 31, 2006, our network was connected to 3,509 (including Thrunet’s network) cells through HFC connections.

Wireless Connections

We also provide the use of wireless last-mile connections to our fiber optic network using BWLL and WLAN technologies. WLAN connection equipment and infrastructure are easier and quicker to install than wire-line connections to our backbone network.

Services using B-WLL are transmitted at a maximum speed of 8 Mbps. As of December 31, 2005, our network was connected to 630 buildings through B-WLL connections. The number of buildings connected to our B-WLL decreased because of a subscriber decrease. Our WLAN services allow Internet access through mobile devices equipped with a LAN card for users within the coverage of our access points. Internet access services using WLAN are transmitted at a maximum speed of 11 Mbps. We currently provide WLAN services in approximately 189 access point areas across Korea, including high traffic areas such as hotels, subway stations, shopping malls, colleges and fast food stores.

Item 4A. Unresolved Staff Comments.

Not applicable.

Item 5. Operating and Financial Review and Prospects.

The following discussion is based on information derived from our consolidated financial statements. Our consolidated financial statements have been prepared in accordance with Korean GAAP, which differ in significant respects from U.S. GAAP. Our consolidated financial statements for the years ended December 31, 2003, 2004 and 2005 have been reconciled to U.S. GAAP (see note 28 to our

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consolidated financial statements included in this Annual Report). The following discussion also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of certain factors, including those set forth under "Item 3.D. Risk Factors" and elsewhere in this document. You should read the following discussion together with our audited consolidated financial statements and the related notes for the years ended December 31, 2003, 2004 and 2005, included in this Annual Report.

A. Operating Results

Overview

We offer high-speed broadband Internet access, voice, leased line and IDC services in Korea. We are the second largest provider of broadband Internet access in Korea and our network covers approximately 80.6% of households in Korea as of April 30, 2006. We offer broadband Internet access service utilizing DSL technology, cable modem technology, B-WLL and WLAN. Our voice service comprises local, domestic long distance, international long distance and VoIP services. We also provide leased line services and operate an Internet data center for corporate customers.

The following table indicates the percentage of revenue for the several segments of our operations:

	Year Ended December 31,	
	2004	2005
Revenue:		
Broadband	68.0%	67.6%
Voice	20.1	23.6
Leased Line	2.7	2.8
Others	9.2	6.0
Total	<u>100.0%</u>	<u>100.0%</u>

Our broadband Internet access business has been our largest business segment and has contributed the vast majority of our operating income to date. Our market share of Korean broadband Internet access subscribers was 22.7% as of December 31, 2005, but as a result of our merger with Thrunet on January 1, 2006, our market share increased to 28.5% as of April 30, 2006. We provide broadband Internet access through DSL services utilizing our fiber optic network, through cable modem access technology, and through wireless access via B-WLL and WLAN. As of April 30, 2006, we had a 6.9% share of the local telephony market in Korea, KT, the dominant operator in the local telephony market, had a 92.9% market share and Dacom, which commenced its commercial local telephony services in January 2005, had a 0.2% market share.

Our broadband Internet access services are provided over our fiber optic backbone network and last-mile connections, consisting of 20,258 kilometers of owned and 9,487 kilometers of leased fiber optic cable as of April 30, 2006. In order to maintain the customer base and achieve the targeted synergies following the merger with Thrunet, we have focused on increasing the portion of our owned access network and, as of April 30, 2006, have shifted approximately 460,000 subscribers, who were previously connected through leased last-mile connections, to our owned network.

In December 2004, we commenced providing VoIP services as part of our local telephony service offerings. We have recently focused on marketing our VoIP services to the new customer base acquired through our merger with Thrunet. As a result of such efforts, the number of local telephony service lines as of December 31, 2005 increased by 107,844 compared to December 31, 2004, including an increase of 83,526 in VoIP lines. At the end of 2005, however, we elected to modify the method in accounting for the number of local telephony service lines from the number of telephone numbers to the number of billing accounts, which reduced the number of service lines by approximately 40,000.

The competitive environment in the industry in which we operate has intensified as Powercomm began to provide retail broadband Internet access service from September 2005 and launched aggressive marketing campaigns to acquire subscribers. We expect competition may continue to intensify in the

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future, and may need to increase our marketing expenses to retain our customer base. In that case, our operating income may be adversely affected.

Significant Factors Affecting Our Results of Operations

Factors Directly Affecting Revenues

Our service revenues are driven primarily by subscriber growth and retention, usage and prices charged for the services we offer.

Subscriber Growth

Broadband. During our first several years of operation from 1999 to 2002, our results in the broadband Internet access area were driven by rapid growth in number of subscribers for these services. The compound average growth rate in broadband subscribers during this period was 204%. Since that time, our rate of broadband subscriber growth has slowed. The broadband penetration rate in Korea is among the highest in the world; according to data derived from the MIC, the broadband penetration rate (as a percentage of Korean households with broadband Internet access) was 77% as of December 31, 2005. The relatively high level of penetration suggests a more moderate growth trend going forward. Our revenue growth in this area in the future will depend on retaining our existing customers as well as the customers acquired through our merger with Thrunet, and on increasing the usage of our services through adding or improving value-added services.

Voice. Voice subscriber growth has increased significantly in 2004 due to the regulatory change permitting fixed-line number portability and our consequent marketing efforts. Although the growth rate has decreased, the overall increase in the number of voice subscribers continued in 2005. We believe the new customer base acquired through our merger with Thrunet will offer us additional opportunities to market our bundled broadband Internet access and voice services and increase our voice subscribers.

Revenue per Subscriber

Our revenue per subscriber of broadband services has declined over the past several years. The primary factors contributing to this trend are (1) revenue levels among long-term subscribers declining slightly due to the impact of discounts provided in connection with such customers shifting into longer term (one year or longer) contracts, (2) slower increases in numbers of subscribers yielding fewer installation and connection charges than in years of rapidly increasing subscriber bases and (3) the increasing proportion of subscribers who are exempt from modem rental fees after using our services over three years. Our average revenue per subscriber in voice services decreased though 2004 due to rapid growth in the total number of subscribers and the larger proportion of lower usage subscribers. In 2005, however, average revenue per subscriber began to recover mainly due to an increase in the number of subscribers using our voice services as their primary phone service.

Competition and Pricing

Since our inception, we have been operating in a competitive environment featuring a dominant operator, KT, with a majority or significantly greater market share in both the broadband Internet access market (49.9% versus our 28.5% share as of April 30, 2006, according to the MIC) and the local telephony market (92.9% versus our 6.9% share as of April 30, 2006, according to the MIC). KT has significantly greater financial resources than we do, and has been aggressively upgrading its broadband offerings in the past year. In the broadband Internet access market, in addition to KT, we face competition from Powercomm, which began to provide retail broadband Internet access service from September 2005, Onse Telecom Co., Ltd. and a variety of cable service operators. As a result, pricing competition in our market is likely to continue to be intense and our ability to implement price increases or to avoid price decreases may be limited. In the local telephony market, although KT is constrained in its pricing flexibility by its “dominant operator” status (see “—Significant Factors Affecting Our Results of Operations—Extensive

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Governmental Regulation”), we are effectively constrained in our ability to increase prices by KT’s dominant position.

Customer Churn

Managing our customer churn is a significant business objective. Customer churn is a measure of the number of customers who stop using our services. We continue to focus on improving our customer services and enhancing and expanding our service offerings to existing customers in an effort to manage our customer churn rate. We have implemented quality improvements such as increasing broadband Internet access speed and expanding the coverage of fiber optic LAN service, which offers Internet access transmission speeds of up to 100 Mbps, in apartment complexes. In addition, we have promoted conversion of non-contract subscribers to contract subscribers and are developing differential customer management programs such as customer relationship management, commonly referred to as “CRM,” a data analysis program designed to capture more customer usage data and enable us to tailor packages, features and promotions to customers’ preferences. Our average monthly churn rate increased slightly to 1.8% for 2005 from 1.7% for 2004 as a result of increased competition following our merger with Thrunet and the launch of retail broadband Internet access service by Powercomm in September 2005. Our average monthly churn rate for the first quarter of 2006 stabilized at around 2.55% compared to the average monthly churn rate of 2.8% on a simple combined basis for us and Thrunet.

Extensive Governmental Regulation

The Government has played a very active role in the development of the telecommunications industry in Korea, primarily through regulation by the MIC. The MIC is responsible for licensing (including granting licenses to utilize new technologies), competitive practices, interconnection rates, tariff regulation, technological choices and levels of foreign investment, among others.

Among the centerpieces of the MIC’s regulatory regime is its monitoring and control of pricing policies. KT has been designated as the “dominant operator” of local telephony services in Korea. The MIC has the authority to review and reject pricing proposals by the dominant operator. Thus, we believe the potential market power of KT, at least as it relates to pricing, is restrained. In June 2005, the MIC designated KT as the dominant operator in the broadband Internet access market. Although our market share has increased to 28.5% as of April 30, 2005 through our merger with Thrunet, we do not believe we will be designated as the dominant operator given our small market share compared to that of KT. The nature and content of new regulations will continue to affect our operations. See also “Item 4.B. Business Overview—Korean Telecommunications Laws and Regulations,” “Item 4.B. Business Overview—Recent Acquisitions and New Services” and “Item 3.D. Risk Factors—Risks Related to the Telecommunications Industry and Our Business—The Government has had, and continues to have, significant control and influence over the development of the telecommunications industry in Korea.”

Rapid Technological Change

The telecommunications industry is subject to rapid and ongoing technological change. Due to the rapidly changing technological capabilities necessary to remain competitive, we may be required to incur substantial capital expenditures to meet these requirements. The convergence of various technologies competing to provide similar or related services may also dictate technological change and attendant expenditure (if, for example, one technology offers a combination of benefits that prove more attractive to subscribers than our then-current technology). See “Item 3.D. Risk Factors—Risks Related to the Telecommunications Industry and Our Business—The telecommunications industry is capital intensive and subject to rapid changes in technology.”

Critical Accounting Estimates and Judgments

Our financial statements are prepared in accordance with Korean GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported

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amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. We believe the following are among our critical accounting policies:

Allowance for doubtful accounts

We maintain an allowance for doubtful accounts for estimated losses, which result from the inability of our customers to make the required payments. We base our allowance on the likelihood of recoverability of accounts receivable based on past experience and taking into account current collection trends that are expected to continue. If economic or specific industry trends worsen beyond our estimates, actual losses could exceed estimated losses, and we would need to increase our allowance for doubtful accounts by recording additional expense.

Estimated useful lives of property and equipment

The useful lives are estimated at the time the asset is acquired and are based on historical experience with similar assets, as well as taking into account anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation expense in future periods. Alternatively, these types of technological changes could result in the recognition of an impairment charge to reflect the write-down in value of the asset. We review these types of assets for impairment annually, or when events or circumstances indicate that the carrying amount may not be recoverable over the remaining lives of the assets.

We changed the useful lives of certain types of tangible assets, effective from January 1, 2004, to more accurately reflect our own experience as well as the rapidity of technological change in the telecommunications industry. These changes increased our depreciation expense by Won 8.0 million for the fiscal year ended December 31, 2004. The changes in estimated useful lives were:

	<u>Previous useful lives</u>	<u>Revised useful lives</u>
Buildings and structures.	50 years	40 years
Machinery (duct lines).	8 years	15 years
Machinery (terminal equipment)	8 years	6 years
Vehicles and other.	5-8 years	4 years

In addition, after a review by management of equipment values in 2004, we determined that certain equipment had become obsolete or had significantly deteriorated and wrote off Won 20.7 billion of such equipment in 2004. As a result of a further review by management, we have written off Won 60.6 billion of equipment in 2005.

Impairment of investments in non-listed equity securities

We have investments in non-listed equity securities that are stated at acquisition cost. If we determine that a decline in the net asset value below the book value of an investee is temporary and recoverable, such unrecognized valuation loss is not reflected as a reduction of shareholders' equity. If the net asset value of an investee declines compared to the acquisition cost and is not expected to recover, the carrying value of the non-listed equity security is adjusted to the net asset value, with the resulting valuation loss charged to current operations. As part of this evaluation, we consider the investee's results of operations, the investee's performance forecast and general market conditions. If economic or specific industry trends worsen beyond our estimates, valuation losses previously determined to be recoverable may need to be charged as a valuation loss in current operations.

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Impairment of goodwill

We record the excess of acquisition cost over the fair value of net identifiable assets acquired that are related to entities being consolidated as goodwill, which is amortized on a straight-line base over its estimated economic useful life.

We review goodwill for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. In addition, we evaluate our goodwill for impairment each year as part of our annual forecasting process. An impairment loss will be recognized when the carrying amount of goodwill exceeds estimated discounted future cash flows expected from the entities that are being consolidated and its eventual disposition is less than its carrying amount. As a result of an impairment test, we have impaired Won 79.6 billion of intangibles (including goodwill) in 2005.

U.S. GAAP Reconciliation

In 2004, we recorded net income of Won 14.8 billion under U.S. GAAP compared to net income of Won 13.0 billion under Korean GAAP, primarily because of the different accounting treatment of development costs, interest capitalization and amortization of goodwill and other GAAP differences. In 2005, we recorded a net loss of Won 203.2 billion under U.S. GAAP compared to a net loss of Won 209.3 billion under Korean GAAP, primarily because of the different accounting treatment of development costs, interest capitalization and amortization of goodwill.

Shareholders' equity under U.S. GAAP is higher than that under Korean GAAP by Won 23.7 billion and Won 28.7 billion at December 31, 2004 and 2005, respectively, primarily as a result of:

- the difference in the treatment of licensing costs;
- the difference in the treatment of interest capitalization;
- the difference in the treatment of loans to employees;
- the difference in the treatment of development costs; and
- the difference in the treatment of goodwill.

Earnings per share under U.S. GAAP was higher than earnings per share under Korean GAAP for 2004 by Won 36 and loss per share under U.S. GAAP was higher than loss per share under Korean GAAP for 2005 by Won 426 because the calculation of earnings per share under U.S. GAAP reflects the effect of the reverse stock split that took place on May 3, 2006.

Results of Operations

Year ended December 31, 2005 compared to year ended December 31, 2004

Operating Revenues

Our total revenue for the year ended December 31, 2005 was Won 1,589.3 billion, an increase of Won 139.7 billion, compared to total revenue of Won 1,449.6 billion in 2004. The increase in total revenue in 2005 was primarily due to a Won 89.0 billion increase in broadband revenue attributable to Thrunet after the acquisition, and a Won 84.1 billion increase in voice revenue from Won 291.2 billion in 2004 to Won 375.3 billion in 2005.

The following table provides revenue data for the several segments of our operations:

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	Year Ended December 31,	
	2004	2005
Revenue:	(billions of Won)	
Broadband	Won 985.4	Won1,074.4
Voice	291.2	375.3
Leased Line	39.8	44.3
Others	133.2	95.5
Total	Won1,449.6	Won1,589.3

Broadband revenues for 2005 increased by Won 89.0 billion compared to Won 985.4 billion in 2004. The increase is primarily attributable to additional revenues from Thrunet of Won 145.4 billion after the acquisition. Without the positive effect attributable to Thrunet, our broadband revenues decreased from Won 985.4 billion in 2004 to 937.9 billion in 2005 as a result of increased competition following our acquisition of Thrunet and the launch of Powercomm's services.

Voice revenues increased primarily due to (1) the continued growth in voice subscribers, (2) the re-categorization of revenues relating to VoIP services into voice revenues from other revenues in accordance with the MIC policy announced in December 2004, and (3) the effect of recognizing a full year of revenues from our domestic long distance telephony services and international long distance telephony services, which were commercially launched in July 2004.

Other revenues for 2005 decreased to Won 95.5 billion compared to Won 133.2 billion for 2004. The decrease was primarily due to the re-categorization of revenues relating to VoIP services into voice revenues from other revenues.

Operating Expenses

Our total operating expenses for the fiscal year ended December 31, 2005 were Won 1,550.8 billion, an increase of Won 215.2 billion, compared to total operating expenses of Won 1,335.6 billion in 2004.

The following table presents significant accounts of operating expenses:

	Year Ended December 31,	
	2004	2005
	(billions of Won)	
Salaries and wages	Won 103.0	Won 122.8
Provision for severance indemnities	14.1	14.9
Welfare	25.0	26.0
Rent	6.1	9.3
Taxes and dues	7.4	8.2
Depreciation	442.3	498.1
Advertising	39.5	30.1
Ordinary research and development cost	4.0	4.4
Utilities	22.0	26.8
Telecommunication equipment lease expenses	140.8	164.4
Bad debt	29.9	19.1
Maintenance	51.5	59.3
Selling expenses	6.8	10.8
Sales commissions	178.4	249.7
Interconnection charges	142.0	164.7
Commissions	68.5	84.6
Outsourcing services	24.7	30.8
Other	29.7	26.7
Total	Won1,335.6	Won1,550.8

The increase in operating expenses in 2005 was primarily due to increases of Won 71.4 billion in sales commissions, Won 55.8 billion in depreciation and Won 23.6 billion in telecommunications equipment lease expenses. Our acquisition of Thrunet increased operating expenses by Won 151.2 billion, including increases in sales commissions, depreciation and telecommunications equipment lease expenses of Won 45.7 billion, Won 33.5 billion and Won 38.3 billion, respectively. In addition, our sales

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commissions increased as we responded to heightened competition to retain our subscriber base. Telecommunications equipment lease expenses also increased Won 23.6 billion, mainly due to the additional Won 38.3 billion of expenses attributable to our acquisition of Thrunet partially offset by our efforts to reduce such expenses by increasing our owned last-mile network. Interconnection charges increased Won 22.7 billion to Won 164.7 billion for 2005 as a result of increased call traffic and subscribers.

These increases were partially offset by decreases in (1) bad debt expenses resulting from our efforts to have subscribers consent to automatic bank withdrawals to pay monthly fees and (2) advertising expenses as we shifted our marketing efforts from trying to obtain new customers through general advertisements to retaining existing customers and target marketing our voice services to our broadband subscribers.

Operating Income

Our total operating income for the year ended December 31, 2005 was Won 38.5 billion, a decrease of Won 75.4 billion, compared to a total operating income of Won 113.9 billion in 2004. The decrease in our total operating income in 2005 was primarily due to increased expenses attributable to our acquisition of Thrunet and increased marketing expenses to retain our subscribers. For segment information on operating income, see note 24 to our consolidated financial statements for the years ended December 31, 2005 and 2004 included in this Annual Report.

Non-Operating Income

Our non-operating income for the year ended December 31, 2005 was Won 83.2 billion, an increase of Won 21.0 billion, compared to non-operating income of Won 62.2 billion in 2004.

The following table presents data for non-operating income:

	Year Ended December 31,	
	2004	2005
	(billions of Won)	
Non-Operating Income:		
Interest income	Won 18.5	Won 16.6
Gain on disposal of short-term investment securities	—	—
Gain on disposal of long-term investment securities	0.1	0.4
Gain on disposal of investment securities using the equity method	—	25.4
Gain on disposal of property and equipment	0.9	4.0
Gain on foreign currency transactions	1.4	8.9
Gain on foreign currency translation	33.8	11.7
Gain on early redemption of debentures	—	—
Gain on valuation of forward exchange contract	—	—
Gain on transaction of forward exchange contract	0.2	—
Other	7.2	16.2
Total	<u>Won 62.2</u>	<u>Won 83.2</u>

The increase in non-operating income in 2005 was primarily due to gain on disposal of investment securities using the equity method of Won 25.4 billion relating to our sale of shares in Hanaro Web-UTV and Media Holdings. Our gain on foreign currency translations decreased by Won 22.1 billion from Won 33.8 billion in 2004 to Won 11.7 billion in 2005 as the Korean Won appreciated less against the U.S. dollar in 2005 than it did in 2004. With the appreciation of the Korean Won, our gain on foreign currency transactions in 2005 increased by Won 7.5 billion compared to 2004, mainly due to increased debt repayment, including through the refinancing of our senior secured credit facility. The Korean Won has continued to appreciate against the U.S. dollar from Won 1,192.60 to U.S.\$1.00 as of December 31, 2003 to Won 1,035.00 to U.S.\$1.00 as of December 31, 2004, and to Won 1,004.50 to U.S.\$1.00 as of December 31, 2005.

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Non-Operating Expenses

Our non-operating expenses for the year ended December 31, 2005 were Won 313.5 billion, an increase of Won 151.2 billion, compared to non-operating expenses of Won 162.3 billion in 2004.

The following table presents data for non-operating expenses:

	Year Ended December 31,	
	2004	2005
	(billions of Won)	
Non-Operating Expenses:		
Interest expense	Won 100.9	Won 98.8
Asset Backed Securities payable expense	0.5	—
Loss on foreign currency transactions	0.4	0.3
Loss on foreign currency translation	0.0	1.1
Loss on disposal of short-term investment securities	0.9	0.0
Loss on disposal of long-term investment securities	0.0	1.4
Loss on valuation of trading securities	—	—
Impairment loss on short-term investment securities	0.5	1.1
Impairment loss on long-term investment securities	2.5	4.0
Donations	0.3	0.3
Loss on early redemption of debentures	—	0.2
Loss on early redemption of long-term debt	—	2.2
Loss on redemption of long-term obligation under capital leases	—	0.0
Loss on valuation using the equity method	—	—
Loss on disposal of property and equipment	1.2	2.2
Loss on disuse of property and equipment	20.7	60.6
Loss on valuation of forward exchange contract	34.0	19.8
Loss on transaction of forward exchange contract	0.2	—
Impairment loss on intangibles	0.0	79.6
Other bad debt	—	12.1
Non-operating expense—other	—	22.0
Other	0.9	7.6
Total	Won 162.3	Won 313.5

The increase in non-operating expenses in 2005 was primarily due to (1) an increased level of loss on disuse of property and equipment, (2) impairment loss on intangibles when we acquired Thrunet, and (3) early retirement allowance payments in connection with our restructuring initiatives in 2005.

Loss on disuse of property and equipment increased to Won 60.6 billion in 2005 mainly due to the Won 29.0 billion loss on disuse of Thrunet property and equipment and the increased loss on disuse of our own property and equipment as we discontinued the use of such property and equipment in connection with our network upgrades.

We recorded Won 122.4 billion of goodwill for the Thrunet shares that we acquired in 2005. At the end of 2005, we recognized an impairment loss of Won 79.2 billion with respect to such goodwill. After the amortization of goodwill in 2005 and the impairment loss, we had Won 32.9 billion of goodwill relating to Thrunet as of December 31, 2005.

In late 2005, we implemented an early retirement program as part of our efforts to improve our operating efficiency. Through such measure, we reduced the combined head count of us and Thrunet by about 260, or 16%. We paid early retirement allowance in connection with such measure of Won 21.9 billion. We expect that reduction in head count through the early retirement program will have a positive impact on salaries and wages.

Net Income (Loss)

As a result of the various factors discussed above, we recorded a net loss of Won 209.3 billion for the year ended December 31, 2005 compared to net income of Won 13.0 billion for the same period in 2004.

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Year ended December 31, 2004 compared to year ended December 31, 2003

Operating Revenues

Our total revenue for the year ended December 31, 2004 was Won 1,449.6 billion, an increase of Won 66.1 billion, compared to total revenue of Won 1,383.5 billion in 2003.

The following table provides revenue data for the several segments of our operations:

Revenue:	Year Ended December 31,	
	2003	2004
	(billions of Won)	
Broadband	Won 982.7	Won 985.4
Voice	249.0	291.2
Leased Line	38.0	39.8
Others	113.8	133.2
Total	<u>Won1,383.5</u>	<u>Won1,449.6</u>

The increase in total revenue in 2004 was primarily due to an increase in revenue of Won 42.2 billion from our voice services from Won 249.0 billion in 2003 to Won 291.2 billion in 2004. The primary reason for the increase in voice revenues was the net addition of 411,892 subscribers, compared to the level as of December 31, 2003 (including additions of 149,733 during the third quarter of 2004). This was due to an extensive marketing campaign targeted at Seoul and Busan in the third quarter of 2004 seeking to capitalize on fixed-line number portability. VoIP also contributed to the growth of revenues from voice services. This increase resulted from (1) the improved quality of VoIP vis-à-vis standard Public Switched Telephone Network, commonly referred to as "PSTN," telephony and (2) a marketing campaign aimed at promoting this new service. The significant percentage growth, however, represents an increase over a very small base.

Broadband revenues for 2004 increased slightly by Won 2.7 billion compared to Won 982.7 billion in 2003. The slight increase is primarily attributable to an increase in the number of active subscribers. In effect we recorded an increase of 23,171 subscribers as of December 31, 2004 compared to the corresponding date in 2003 as we deactivated approximately 240,000 inactive subscribers in the fourth quarter of 2003. As noted elsewhere, we have focused on the retention of customers (reflected in lower churn rates) and have been able to maintain a relatively stable cash flow from our broadband Internet access operations.

Other revenues for 2004 increased to Won 133.2 billion compared to Won 113.8 billion for 2003 primarily due to increased sales volume of VoIP services and PABX services.

Operating Expenses

Our total operating expenses for the fiscal year ended December 31, 2004 were Won 1,335.6 billion, an increase of Won 22.8 billion, compared to total operating expenses of Won 1,312.8 billion in 2003.

The following table presents significant accounts of operating expenses:

	Year Ended December 31,	
	2003	2004
	(billions of Won)	
Salaries and wages	Won 92.4	Won 103.0
Provision for severance indemnities	13.4	14.1
Welfare	19.4	25.0
Rent	14.7	6.1
Taxes and dues	8.3	7.4
Depreciation	428.5	442.3
Advertising	27.5	39.5

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	Year Ended December 31,	
	2003	2004
	(billions of Won)	
	Won	Won
Ordinary research and development cost	4.9	4.0
Utilities	19.5	22.0
Telecommunication equipment lease expenses	165.7	140.8
Bad debt	25.7	29.9
Maintenance	42.6	51.5
Selling expenses	6.4	6.8
Sales commissions	196.0	178.4
Interconnection charges	131.1	142.0
Commissions	70.9	68.5
Outsourcing services	20.5	24.7
Other	25.3	29.7
Total	Won1312.8	Won1335.6

The increase in operating expenses in 2004 was primarily due to increases of Won 13.8 billion in depreciation and amortization, Won 12.1 billion in advertising expenses and Won 10.9 billion in interconnection charges. The increase in depreciation and amortization was caused by increases in depreciable plant and equipment. The increase in advertising expense in 2004 was the result of significant advertising campaigns in the second and third quarters of 2004 to promote our change in corporate identity and logo, our newly branded “hanafone” telephony services and fixed-line number portability. Although lower interconnection fee rates set by the MIC took effect in January 2004, interconnection charges increased primarily due to an increase in the number of our local telephony services subscribers.

These increases were partially offset by decreases in (1) sales commission expenses resulting from the slower growth in subscribers during 2004 compared to growth in 2003, (2) telecommunications equipment lease expense due to reduced dependence on cable lines leased to us by Powercomm and a reclassification of expenses relating to long distance calls as interconnection fees, and (3) certain promotional expenses attributable to our increased focus on entering into strategic alliances with certain system operators and relay operators and our seeking to avoid predatory pricing practices.

Operating Income

Our total operating income for the year ended December 31, 2004 was Won 113.9 billion, an increase of Won 43.2 billion, compared to a total operating income of Won 70.7 billion in 2003. The increase in our total operating income in 2004 was primarily due to an increase in our voice revenues in 2004. For segment information on operating income, see note 24 to our consolidated financial statements for the years ended December 31, 2003 and 2004 included in this Annual Report.

Non-Operating Income

Our non-operating income for the year ended December 31, 2004 was Won 62.2 billion, an increase of Won 35.2 billion, compared to non-operating income of Won 27.0 billion in 2003.

The following table presents data for non-operating income:

	Year Ended December 31,	
	2003	2004
	(billions of Won)	
	Won	Won
Non-Operating Income:		
Interest income	18.5	18.5
Gain on disposal of short-term investment securities	0.3	—
Gain on disposal of long-term investment securities	0.1	0.1
Gain on disposal of investment securities using the equity method	—	—
Gain on disposal of property and equipment	1.1	0.9
Gain on foreign currency transactions	0.3	1.4
Gain on foreign currency translation	0.0	33.8
Gain on early redemption of debentures	0.9	—
Gain on valuation of forward exchange contract	0.2	—
Gain on transaction of forward exchange contract	0.3	0.2
Other	5.3	7.2
Total	Won 27.0	Won 62.2

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The increase in non-operating income in 2004 was primarily due to increases in gain on foreign currency translations. Our gain on foreign currency translations increased by Won 33.8 billion from Won 19 million in 2003 to Won 33.8 billion in 2004 primarily due to the appreciation of the Korean Won against the U.S. dollar and an increase in our dollar-denominated liabilities in 2004. The Korean Won slightly depreciated against the U.S. dollar from Won 1,186.30 to U.S.\$1.00 as of December 31, 2002 to Won 1,192.60 to U.S.\$1.00 as of December 31, 2003, but appreciated against the U.S. dollar to Won 1,035.00 to U.S.\$1.00 as of December 31, 2004.

Non-Operating Expenses

Our non-operating expenses for the year ended December 31, 2004 were Won 162.3 billion, a decrease of Won 96.3 billion, compared to non-operating expenses of Won 258.6 billion in 2003.

The following table presents data for non-operating expenses:

	Year Ended December 31,	
	2003	2004
	(billions of Won)	
Non-Operating Expenses:		
Interest expense	Won 139.3	Won 100.9
Asset Backed Securities payable expense	9.0	0.5
Loss on foreign currency transactions	0.8	0.4
Loss on foreign currency translation	0.1	0.0
Loss on disposal of short-term investment securities	2.1	0.9
Loss on disposal of long-term investment securities	—	0.0
Loss on valuation of trading securities	0.3	—
Impairment loss on short-term investment securities	0.9	0.5
Impairment loss on long-term investment securities	3.4	2.5
Donations	0.8	0.3
Loss on early redemption of debentures	0.3	—
Loss on early redemption of long-term debt	—	—
Loss on redemption of long-term obligation under capital leases	—	—
Loss on valuation using the equity method	23.1	—
Loss on disposal of property and equipment	1.3	1.2
Loss on disuse of property and equipment	61.3	20.7
Loss on valuation of forward exchange contract	—	34.0
Loss on transaction of forward exchange contract	—	0.2
Impairment loss on intangibles	—	0.1
Other bad debt	—	—
Non-operating expense-other	4.5	—
Other	11.1	0.9
Total	Won 258.6	Won 162.3

The decrease in non-operating expenses in 2004 was primarily due to lower interest expense as we reduced our debt levels, particularly those with higher interest rates. The level of write-off of property and equipment also decreased compared to 2003. In addition, the significant losses attributable to Dreamline were not reflected in our income statement under the equity method following the reclassification of our interest in Dreamline to a long-term investment. See note 8 to our consolidated financial statements for a detailed discussion relating to Dreamline. These improvements in non-operating expenses were, however, partially offset by losses of Won 34.0 billion on valuation of forward exchange contract. See note 15 to our consolidated financial statements for more a detailed discussion.

Net Income (Loss)

As a result of the various factors discussed above, we recorded net income of Won 13.0 billion for the year ended December 31, 2004 compared to a net loss of Won 161.3 billion for the same period in 2003.

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Impact of Inflation

In view of our operating history, we believe that inflation in Korea has not had a material impact on our results of operations. Inflation in Korea in 2001, 2002, 2003, 2004 and 2005 was 4.1%, 2.7%, 3.6%, 3.6% and 2.7%, respectively.

Impact of Foreign Currency Fluctuations

See “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk.”

B. Liquidity and Capital Resources

Our primary uses of cash are to fund working capital, service indebtedness and fund capital expenditures. Our primary sources of liquidity and capital requirements traditionally have been from equity and debt financings, as cash flows from operations had not been sufficient to meet our needs. Our cash flow from operations, however, has been increasing in recent periods, and this, in turn, has led, among other things, to a reduced need for short term financing. In 2006, we expect that our capital expenditures will not increase significantly from the level of 2005 and that they will focus mostly on upgrades of our fiber LAN network. In addition, we have approximately Won 220.4 billion of long-term debt obligations maturing within 2006, out of which we have repaid Won 190 billion due in February 2006 with the issuance of corporate debentures amounting to Won 100.0 billion, our cash on hand and available credit lines.

As a result of the issuance and sale of the \$500 million aggregate principal amount of 7% notes due 2012 in February 2005, our debt-to-equity ratio changed from 59.1% as of December 31, 2004 to 63.2% as of December 31, 2005. As of March 31, 2006, we had Won 287.4 billion of principal payments and contracted commitments coming due in the remainder of 2006 through the end of 2008.

With the combination of our cash on hand, increased cash flow from operations, and our improved liquidity position attributable to the issuance and sale of our 7% notes in February 2005 and the refinancing of the secured credit facility in May 2005, we believe that we have sufficient funding to meet our currently anticipated debt repayment, capital expenditure and debt service requirements, as well as our working capital and other funding objectives for the next 12 months.

In order to maintain our competitive position and continue to meet the increasing demands for service quality, availability and competitive pricing and to further build our network, we may need to incur capital expenditures in addition to those currently anticipated. Our actual future financing requirements and our ability to obtain additional financing will depend on our future performance, market conditions and other factors, many of which are beyond our control and cannot be predicted with certainty. We believe that adequate financing will be available in the event we need additional funds for such purposes. Nevertheless, we cannot assure you that such financing will be available on favorable terms. If we are unable to obtain such financing, we may need to modify, delay or abandon elements of our strategy.

Cash Flows

The following table sets forth selected information concerning our combined cash flows during the periods indicated:

	Year ended December 31,		
	2003	2004	2005
	(in billions of Won)		
Cash flows from operating activities	Won 303.0	Won 469.9	Won 489.1
Cash flows from investing activities	(250.8)	(209.2)	(574.6)
Cash flows from financing activities	(135.1)	(294.9)	(48.4)

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Cash flows from operating activities have increased during the three years ended December 31, 2005, primarily due to the improvement in operating performance and the change in working capital.

Cash flows used in investing activities have generally show a decreasing trend in the past three years due to decreased acquisitions of short-term financial instruments. In 2005, however, cash flows used in investing activities increased significantly as a result of our acquisition of Thrunet shares and bonds. Acquisitions of property and equipment in 2005 increased to Won 311.7 billion from Won 212.5 billion for 2004 as we made capital expenditures to reduce our dependence on our leased last-mile network from Powercomm by further building out our own network. In addition, we did not acquire any property and equipment through capital leases in 2005 compared to the Won 37.7 billion of property and equipment acquired through capital leases in 2004.

Cash flows from financing activities have turned negative from 2003, reflecting decreased levels of financing activity and our repayment of indebtedness. Cash flows used in financing activities were Won 48.4 billion in 2005, reflecting a continuation of the factors primarily responsible for the earlier trend partially offset by the proceeds from the issuance of \$500 million aggregate principal amount of bonds issues in February 2005.

See “—Liquidity and Capital Resources—Long Term Indebtedness and Capital Lease Payments” for information regarding future repayments.

Equity Investment

On November 18, 2003, we issued 182,812,500 common shares (representing an aggregate of 39.6% equity interest) at a purchase price of Won 3,200 per share by way of a private placement to a consortium of investors led by AIG, Newbridge and TVG, which resulted in aggregate proceeds of Won 585.0 billion. These proceeds were a primary source for our debt repayments in 2003 and 2004 as well as for meeting our debt service requirements. See “Item 7.B. Related Party Transactions—Relationship with AIG-Newbridge-TVG Consortium.”

Long Term Indebtedness and Capital Lease Payments

Our contractual obligations, including commitments for future payments under lease arrangements and short-term and long-term debt arrangements, are summarized below and are fully disclosed in notes 11 and 13 to our consolidated financial statements included elsewhere in this Annual Report.

	Balance December 31, 2005		Payments due during Year ended December 31,					
			2006	2007	2008	2009	2010	
			(in billions of Won and millions of U.S. dollars)					
Korean corporate debentures	Won	190.0	Won 190.0.	Won —	Won —	Won —	Won —	Won —
Global corporate debentures ⁽¹⁾	\$	500.0	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Syndicated loan:								
Won		79.8		19.2	22.3		25.5	12.8
Dollar	\$	201.8	\$ 30.3	\$ 80.7	\$ 90.8	\$ —	\$ —	\$ —
Capital leases	Won	39.4	Won 26.7	Won 12.3	Won 0.4	Won —	Won —	Won —
Total — Won	Won	309.2	Won 216.7	Won 31.5	Won 22.7	Won 25.5	Won 12.8	Won —
— Dollar	\$	701.8	\$ 30.3	\$ 80.7	\$ 90.8	\$ —	\$ —	\$ —

(1) The maturity for the \$500 million aggregate principal amount of global bond is February 2012.

As of December 31, 2005, we had outstanding long-term debt (including current portions of long term debt) in an aggregate amount of Won 974.8 billion (of which the current portion was Won 220.4 billion). Of that amount, 20.8% was denominated in U.S. dollars and 79.2% was denominated in Korean Won. The Won-denominated long-term debt consisted of (1) Korean corporate debentures, (2) amounts borrowed from the senior secured credit facility and (3) the capital lease agreements.

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Korean Corporate Debentures. As of December 31, 2005, we had outstanding Korean corporate debentures of Won 190.0 billion (of which the current portion was Won 190.0 billion). The creditors include various Korean financial institutions. The scheduled maturity of these debentures is on February 24, 2006 and the interest rate for these debentures is 6% per annum.

Global Corporate Debentures. As of December 31, 2005, we had outstanding global corporate debentures of U.S.\$500 million. The scheduled maturity of these debentures is February 2012, and the interest rate for these debentures is 7% per annum.

Senior Secured Credit Facility. As of December 31, 2005, we had outstanding Won 79.8 billion of Won-denominated indebtedness and U.S.\$201.8 million of dollar-denominated indebtedness under our senior secured credit facility. The senior secured credit facility provided for a term loan facility in the aggregate amount of Won 660.0 billion and a revolving credit facility in the aggregate amount of Won 60.0 billion. The Won-denominated debt under the senior secured credit facility bore interest rates of 6.36% per annum and the dollar-denominated debt under the senior secured credit facility bore an interest rate of 6.18% per annum.

Capital Lease Agreements. We also have capital lease agreements with Korea HP Financial Service Co., LG Card Services Corp. and Cisco Systems Capital Korea Ltd. for certain machinery and equipment. As of December 31, 2005, the amount of payments attributable to the debt portion of our lease obligations was Won 39.4 billion (of which the portion due in 2006 was approximately Won 26.7 billion).

A portion of the proceeds from the notes offering and the borrowings under the new secured credit facility was applied to repay some of our outstanding debt obligations. Between January 1, 2005 and April 30, 2005, we repaid at maturity or prepaid prior to maturity the following amounts:

- Won 120 billion aggregate principal amount of Korean corporate debentures, including Won 100 billion of prepayments;
- all outstanding amounts under the Information Promotion Fund loan amounting to Won 66.7 billion;
- Won 39.0 billion of the Won 40.0 billion outstanding amount under the Citibank Korea loan;
- all outstanding amounts under the previous senior secured credit facility; and
- Won 25.6 billion of lease obligations due under our capital lease agreements, including Won 7.1 billion of prepayments.

Other Financial Transactions

On December 19, 2003, we entered into a cross-currency swap contract with Korea Development Bank (pursuant to which we exchanged Won 75.0 billion for U.S.\$63.1 million with a final maturity dated as of November 13, 2008), in connection with the Senior Secured Credit Facility agreement dated April 21, 2005, to hedge the exposure to changes in the foreign currency exchange rate at Won 1,190.0 per U.S.\$1.00. This contract also includes an interest rate swap under which we agreed to pay a fixed rate of 7.72% per annum on the notional principal amount and are to receive payments based on LIBOR plus a 3.25% spread.

As of December 31, 2005, we provided a blank promissory note as collateral to LG Card Services Corp. in connection with the lease agreements. It is common practice for Korean companies to issue blank promissory notes with a maximum note amount to financial institutions as collateral in credit transactions. In the event a holder of a blank promissory note attempts to claim an amount in excess of the maximum note amount, the issuer of such promissory note will be required to pay the entire note amount. However, in such event, the issuer has a right of indemnification from such holder with respect to the excess amount.

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On February 10, 2004, we entered into cross-currency swap contracts under which we exchanged an aggregate of Won 161.8 billion (Won 116.6 billion with Korea Development Bank, Won 21.9 billion with Korea Exchange Bank and Won 23.3 billion with Calyon Bank [formerly "Credit Lyonnais Bank"]) for U.S.\$138.7 million with a maturity date of November 13, 2008 to hedge exposure to changes in the foreign currency exchange rate at Won 1,166.2 per U.S.\$1.00. These contracts also include interest rate swaps under which we agreed to pay a fixed rate of 7.60% per annum on the notional principal and are to receive three month LIBOR plus a spread of 3.25%.

On January 26, 2005, we entered into cross-currency swap contracts under which we exchanged an aggregate of Won 258.8 billion (Won 103.5 billion with Korea Development Bank, Won 103.5 billion with DBS Bank and Won 51.8 billion with Shinhan Bank) for U.S.\$250.0 million with a final maturity date of February 1, 2012 to hedge the exposure to changes in the foreign currency exchange rate at Won 1,035.0 per U.S.\$1.00. These contracts also include interest rate swap arrangements under which we agreed to pay a fixed rate of 7.13% per annum on the notional principal pursuant to the contracts with Korea Development Bank and DBS Bank and a fixed rate of 7.15% per annum on the notional principal pursuant to the contract with Shinhan Bank, and are to receive a 7.00% fixed coupon.

On January 28, 2005, we entered into cross-currency swap contracts under which we exchanged an aggregate of Won 154.0 billion (Won 102.7 billion with ABN AMRO Bank and Won 51.3 billion with JPMorgan Chase Bank N.A.) for U.S.\$150.0 million with a final maturity date of February 1, 2012 to hedge the exposure to changes in the foreign currency exchange rate at Won 1,026.5 per U.S.\$1.00. These contracts also include interest rate swap arrangements under which we agreed to pay a fixed rate of 6.89% per annum on the notional principal pursuant to the contract with ABN AMRO Bank and a fixed rate of 6.98% per annum on the notional principal pursuant to the contract with JPMorgan Chase Bank N.A., and are to receive a 7.00% fixed coupon.

On February 1, 2005, we entered into cross-currency swap contracts under which we exchanged an aggregate of Won 102.9 billion (Won 82.3 billion with Shinhan Bank [formerly "Chohung Bank"] and Won 20.6 billion with Societe Generale) for U.S.\$100.0 million with a final maturity date of February 1, 2012 to hedge the exposure to changes in the foreign currency exchange rate at Won 1,028.6 per U.S.\$1.00. These contracts also include interest rate swap arrangements under which we agreed to pay a fixed rate of 7.23% per annum on the notional principal and are to receive a 7.00% fixed coupon.

Capital Expenditures

The following table sets forth the amount of our capital expenditures incurred from 2002 to 2005:

	Year ended December 31,			
	2002	2003	2004	2005
	(in billions of Won)			
hanarotelecom:				
Backbone network	Won 128.5	Won 111.1	Won 99.2	Won 73.5
Last mile connection	205.9	191.7	135.0	183.1
Others	27.9	34.7	47.5	54.7
Subtotal	362.3	337.5	281.7	311.3
Consolidated subsidiaries	58.4	0.3	0.8	15.5
Total	<u>Won 420.7</u>	<u>Won 337.8</u>	<u>Won 282.5</u>	<u>Won 326.8</u>

Our capital expenditures differ from investments in property and equipment in our cash flow statements, as capital expenditures also include capital lease payments and transfer of inventories to property and equipment. Our capital expenditures over the last three years consisted primarily of purchasing and deploying switchboards, fiber optic cable lines and other telecommunications equipment. In 2005, we recorded Won 311.3 billion in capital expenditures, out of which a substantial amount of our capital expenditures was incurred in the fourth quarter due to the timing of expenditures on several planned projects and because certain investments related to the integration of our network with Thrunet's network. At this time, we expect that our capital expenditures in 2006 will not increase significantly from the level of 2005 and that they will focus mostly on upgrades of our fiber LAN network.

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Other Contractual Obligations

We, as well as other license holders, are required to make annual contributions to public research and development funds under the terms of the licenses granted to us by the Government to operate our business. On May 9, 2002, the MIC announced that, effective from 2002, only the NSPs whose total broadband (from 2005 onwards), voice and leased line services revenue amount for the preceding year was more than Won 30 billion and that realized a net profit in the preceding year are required to make annual payments for the purpose of research and development in the amount of 0.5% of the total broadband (from 2005 onwards), voice and leased line services revenue, to the extent that the amount of such payment does not exceed the amount of the net profit for the preceding year. The “net profit” which the MIC will use in its determination of the amount of these contributions is calculated using accounting standards and policies specified by the MIC which differ in certain respects from Korean GAAP. Based on the MIC accounting standards, we did not realize a net profit in 2004 and are not required to make a contribution in 2005. We do not anticipate that we will realize a net profit based on the MIC accounting standards in 2005 and therefore do not anticipate that we will be required to make a contribution in 2006.

Under Korean law, an employee with more than one year of service is entitled to receive from the company a lump-sum payment upon termination of his or her employment, based on the length of service and the rate of pay at the time of termination. In 2004, we made severance payments of Won 5.1 billion and Won 19.7 billion in 2005, respectively. Our accrued severance indemnities as of December 31, 2005 was Won 36.0 billion.

As of December 31, 2004 and as of December 31, 2005, we had provided loans to our employees in the amount of Won 13.1 billion and Won 9.8 billion, respectively, for the purchase of our common shares through our employee stock ownership association. The loans are secured by the shares purchased. As of December 31, 2005, we had also provided housing loans and other loans for medical expenses and dependent educational expenses to our employees in the amount of Won 8.6 billion and Won 0.2 billion, respectively. These loans are secured by accrued severance benefits of the borrowing employees. As of December 31, 2005, we had not experienced any defaults under these loans. The loans are provided as a perk to our employees and are not required by Korean law. Our officers and directors are not eligible for these loans.

For time to time, we have provided secured or guaranteed interest-free loans to cable network operators. The terms of each of those loans require repayment after a specified period (ranging from one year to three years) from the date of the loan by equal installments on a quarterly basis for two years. As of December 31, 2005, we provided a guarantee of one loan with an outstanding balance of Won 70 million. The loan agreements require the cable network operators to use the loan proceeds to upgrade their systems so that our services can be provided over their networks. The loan agreements also require the borrower to lease to us its cable network for our HFC-based Internet access services upon completion of the system upgrade.

C. Research and Development, Patents and Licenses, etc.

We engage in ordinary research and development to improve our technologies. We have not spent a significant amount on such research and development activities.

D. Trend Information

See “Item 5.A. Operating Results” above.

E. Off-balance Sheet Arrangements

There were no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

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F. Tabular Disclosure of Contractual Obligations

The following table sets forth information with respect to our known contractual obligations as of December 31, 2005:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in billions of Won)				
Long-term debt obligations	Won 974.8	Won 220.4	Won 213.8	Won 38.3	Won 502.3
Capital lease obligations	39.4	26.7	12.7	—	—
Operating lease obligations	0.8	0.6	0.2	—	—
Purchase obligations	30.3	30.3	—	—	—
Total	<u>Won 1,045.3</u>	<u>Won 278.0</u>	<u>Won 226.7</u>	<u>Won 38.3</u>	<u>Won 502.3</u>

G. Safe Harbor

See discussion under “Forward-Looking Statements.”

Item 6. Directors, Senior Management and Employees.

A. Directors and Senior Management

The following table sets out our directors, their age, their position on the board and audit committee and the shareholder, if any, who nominated them.

Name	Age	Position	Nominated by
Byung-Moo Park	44	Representative Director and Chief Executive Officer	
Wilfried Kaffenberger	61	Non-standing Director	AIG Asian Infrastructure Fund II
David Yeung	56	Non-standing Director	AIG Asian Opportunity Fund
Paul Chen	41	Outside Director	Outside Director Candidate Nominating Committee
Varun Bery	48	Outside Director	Outside Director Candidate Nominating Committee
Sung Kyou Park	67	Outside Director & Chairman of Audit Committee	Outside Director Candidate Nominating Committee
Sun Woo Kim	65	Outside Director & Member of Audit Committee	Outside Director Candidate Nominating Committee
Steven J. Schneider	47	Outside Director	Outside Director Candidate Nominating Committee
Afshin Mohebbi	43	Outside Director	Outside Director Candidate Nominating Committee
Peter Whang	39	Non-standing Director & Member of Audit Committee	AIG Asian Infrastructure Fund II

Byung-Moo Park was appointed as Representative Director on March 24, 2006 and prior to that served as our outside Director since November 2003. Since 2003, he has served as a managing director of Newbridge Capital Korea Ltd. Prior to joining Newbridge, he served as Chief Executive Officer of PLENUS Entertainment Inc. Prior to that, he was a partner in the law firm of Kim & Chang in Korea. Mr. Park is a graduate of the College and the Graduate School of Law at Seoul National University and received his masters in business administration from Yonsei University and an LL.M. from Harvard Law School. Mr. Park is a member of the Korean and New York Bar Associations.

Wilfried Kaffenberger has served as our non-standing Director since November 2003. He is currently serving as Managing Director of Emerging Markets Partnership and as Chief Executive Officer of AIG Asian Infrastructure Fund II. Prior to joining Emerging Markets Partnership, he was with International Finance Corporation for over 25 years in various capacities, including as a Vice President Investment Operations. Mr. Kaffenberger received a bachelor of science in chemical engineering from Princeton University in 1966 and masters in business administration from Harvard Graduate School of Business in 1968.

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David Yeung has served as our non-standing Director since November 2003. He is currently serving as Head of AIG's infrastructure investments in developing markets and as Managing Director of AIG Global Investment Corp in Hong Kong. Prior to joining AIG in Hong Kong in 1995, Mr. Yeung was with Bell Canada Enterprise and Northern Telecom managing telecom and technology investments in North America. Mr. Yeung received a bachelor of science from Indiana University in 1972 and masters in business administration from The Graduate School of Business, University of Chicago in 1974. He is a U.S. certified public accountant as well as a Canadian chartered accountant.

Paul Chen has served as our outside Director since November 2003. He is currently a Managing Director of Newbridge Capital based in Hong Kong. Mr. Chen played a key role in Newbridge's investments in hanarotelecom and Korea First Bank and currently serves as a member of our Director and Compensation Committee and as a Director and Audit Committee member of Korea First Bank. Prior to joining Newbridge in 1996, Mr. Chen worked in the investment banking division at Morgan Stanley & Co. in New York and Hong Kong as well as Bankers Trust Company in New York. Mr. Chen has a bachelor of science in applied economics and business management from Cornell University and masters in business administration from Harvard Business School.

Varun Bery has served as our outside Director since March 2004. In April 1998, he co-founded, and has since served as a managing director of TVG. From May 1995 until March 1998, he served as a Director of the Telecom Group at the Asian Infrastructure Fund. From September 1992 until May 1995, he served as a Director of the Telecom Investment Banking Division at Credit Suisse First Boston. From September 1985 until August 1992, he was a management consultant with McKinsey & Co. in New York and Tokyo. Mr. Bery received a bachelor of arts from Yale University in 1981 and a masters in business administration from Harvard University.

Sung Kyou Park has served as our outside Director and chairman of our audit committee since March 2000. From 1987 until 1995, he served as President of Daewoo Telecom. From 1995 until 1997, he served as Chairman and Chief Executive Officer of Daewoo Telecom. From 1998 until 1999, he served as Chairman and Chief Executive Officer of Daewoo Maghreb S.A. From 1996 until 1998, Dr. Park served as Chairman of the Telecommunications Industry Association of Korea. He has a bachelor of electronics engineering from MIT. He also received masters in electronics engineering from Northeastern University in 1966 and a Ph.D. in electronics engineering from the University of Texas at Austin in 1971.

Sun Woo Kim has served as our outside Director and member of our audit committee since March 2003. Since May 2004, he has served as a chairman of the board of directors of Korea Digital Satellite Broadcasting. From 2000 until 2003, he served as a director of Korea Broadcasting System. He has been a member of the Advisory Council on Democratic and Peaceful Unification since 1997. From 1992 until 1999, he served as an Executive Director of Busan Daily. Mr. Kim received a bachelor of arts in political science from the Seoul National University in 1965 and masters in business administration from Dankook University in 1983.

Steven J. Schneider has served as our outside Director since March 2006. He earned a bachelor of arts in business administration from Grove City College. From 2001 until 2005, he served as Chairman and CEO of GE China, and from 2005, also served as CEO of GE Asia-Pacific. Since November 2005, he has been a Managing Director of Newbridge Capital.

Afshin Mohebbi has served as our outside Director since March 2006. He received his masters in business administration from University of California Irvine and has been serving as President and Chief Operating Officer of Qwest Communications International Inc. since 1999. He is currently a member of the board of directors of BearingPoint, Inc.

Peter Whang has served as our Director and a member of our audit committee since March 2006. He received a masters in business administration from the University of Chicago. He worked at the Chairman's Office of LG Group before serving as Representative Director of AIGGIC Korea. Although Mr. Whang does not meet the Nasdaq requirements for outside (independent) directors, he satisfies the requirements for audit committee members under the Korean Securities and Exchange Act. Accordingly, as

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a person specially related to the largest shareholder (AIF II NT), he was appointed as a non-standing Director who serves as a member of our audit committee.

The following table sets out information on our principal senior executive officers who are not members of the board of directors.

Name	Age	Position
Jin Ha Kim	50	Senior Executive Vice President and Chief Technology Officer
Dominic A. Gomez	51	Senior Executive Vice President and Chief Operating Officer
Soon Man Hong	47	Senior Executive Vice President and Head of the Convergence Headquarters
Eric Choi	49	Senior Executive Vice President and Head of the Sales Channel Management Headquarters
Mark D. Pitchford	42	Executive Vice President and Chief Marketing Officer
Janice Lee	44	Senior Executive Vice President and Chief Financial Officer
Matt Lee	48	Executive Vice President and Chief Business Officer
Kyu Shik Shin	49	Executive Vice President and Head of the Corporate Business Headquarters
Chong Hoon Park	41	Executive Vice President and Head of the External Collaboration/Strategy Headquarters
Young Bo Chang	47	Senior Vice President
Geon Jun Park	48	Senior Vice President
Sang Hwan Oh	48	Senior Vice President
Seok Ho Lee	52	Senior Vice President
Myong Heon Choi	48	Senior Vice President
Sang Jin Jeun	41	Senior Vice President
Marshall J. Cochrane	63	Senior Vice President and Chief Procurement Officer
Kyoung Yu Min	46	Senior Vice President
Yeon Ho Kim	42	Senior Vice President
Myung Joo Ko	42	Senior Vice President
Baeky Rhee	45	Senior Vice President

Jin Ha Kim has served as our Senior Executive Vice President and Chief Technology Officer since January 2006. Mr. Kim joined us in December 1997 as Executive Vice President, Head of Network Facility Unit and served in such role until November 2003. Before joining us, he served as Director at Dacom from July 1997 and various other roles at Dacom before then.

Dominic A. Gomez has served as our Senior Executive Vice President and Chief Operating Officer since May 2005. Mr. Gomez previously served as an Executive Vice President at Lantern Communications from 2002 to 2004 and Chief Operating Officer at EdgeNet Communications from 2000 to 2002. He received a bachelor of public administration in 1977 from University of Southern California and completed PMD Business Administration at Harvard University.

Soon Man Hong has served as our Senior Executive Vice President and Head of the Convergence Headquarters since April 2006. He was appointed as an Executive Vice President on February 1, 2006, promoted from the Head of the Marketing Headquarters to a Senior Executive Vice President on April 17, 2006 and appointed as Head of the Convergence Headquarters on April 30, 2006. He received a bachelor of science in aerospace engineering from Seoul National University and a masters of business administration from the Helsinki School of Economics and Business Administration. Mr. Hong served as Deputy Senior Manager of the PC Business Department of IBM Korea, Senior Vice President of the Enterprise Computing Group of Compaq Korea between 1998 and 2002, Senior Vice President of the Enterprise Solution Group of HP Korea between June 2002 and December 2002 and Representative Director of Cybase Korea from February 2003 until he joined us.

Eric Choi has served as our Senior Executive Vice President and Head of the Sales Channel Management Headquarters since January 2006. He was appointed on January 1, 2006. He served as President & CEO of SAP Korea from 2000 until 2002, President & CEO of webMethods Korea from 2003 until 2005 and President of Siebel Systems Korea in 2005.

Mark D. Pitchford has served as our Executive Vice President and Chief Marketing Officer since May 2006. He received a masters in business administration from Santa Clara University. He served as Vice President of Consumer Marketing at Pacific Bell from 1984 to 1997, Vice President of Consumer

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Marketing at SBC Communications, Inc. from 1997 to 1999 and Senior Vice President of Marketing at Qwest from 1999 to 2005. He served as our International Sales & Marketing Consultant from 2005 to April 2006, when he was promoted to Head of the Marketing Headquarters of hanarotelecom.

Janice Lee has served as our Senior Executive Vice President since January 2006 and Chief Financial Officer since May 2004. From December 1998 until May 2004, she served as Chief Financial Officer and Financial Projects Manager of Volvo Construction Machinery Korea. From 1993 until November 1998, she served as Financial Controller at Daewoo Heavy Industries America. Ms. Lee received a bachelor of arts in English from Ewha Womans University in 1983, masters in finance from Ohio State University in 1986, masters in accounting from Cleveland State University in 1990 and executive masters in business administration from the University of Chicago in 2003.

Matt Lee has served as our Executive Vice President since January 2006 and Chief Business Officer since January 2005. He previously served as Vice President of Nokia Networks, Managing Director of Excel Tech, General Manager of Hyundai Electronics, and Member of Technical Staff in AT&T Bell Laboratories. Mr. Lee received a bachelor of arts in mathematics in 1984, masters in mathematics in 1985 and masters in statistics in 1986 from the University of Illinois, Urbana-Champaign.

Kyu Shik Shin has served as a Executive Vice President and the Head of Corporate Business Headquarters of hanarotelecom since January 2006. From 1985 to 2003, he served 10 years in IBM, 9 years in COMPAQ and HP as an Enterprise sales director. Mr. Shin received a bachelor of food technology from Seoul National University in 1981.

Chong Hoon Park has served as an Executive Vice President and the Head of External Collaboration/Strategy Headquarters at hanarotelecom since January 2006. From June 1999 to December 2004, Mr. Park served as a Research Fellow of Telecom Policy Division at KISDI. He received a bachelor of economics and mathematics from University of Wisconsin at Madison, an MBA from George Washington University and a Ph.D. in economics from Northwestern University.

Young Bo Chang has served as a Senior Vice President and the Head of the Financial Management Unit of hanarotelecom since January 2005. From February 2004 to December 2004, he served as the Vice President and Head of the Investor Relations team. Mr. Chang previously served as a Senior Director at Jardine Fleming Securities from 1995 to 2000 and as a Vice President at JPMorgan from 2000. He received a bachelor of political and diplomatic science at Yonsei University in Korea and MBA from the Kellogg School of Management of Northwestern University in 1986.

Geon Jun Park has served as our Senior Vice President and the Head of Network Operation Unit since March 2004. From December 1992 to October 1997, he served as Director of Network Cable Planning of Dacom. Mr. Park received a bachelor of electronic engineering from Ah-ju University in 1983.

Sang Hwan Oh has served as a Senior Vice President and the Head of the Business Alliance Unit (Vice President) since January 2005. He served as a Senior Manager of the Mass Marketing Division of Dacom before joining hanarotelecom as the Head of the Honam Branch Office in 2005. He was promoted to Senior Vice President on January 1, 2006. He became the Head of the Business Alliance Unit in March 2006.

Seok Ho Lee has served as a Senior Vice President and the Head of the Busan Branch Office since January 2006. He was promoted from Vice President to Senior Vice President on January 1, 2006. He worked at the Corporate Business Headquarters of Dacom before becoming the Head of the Busan Branch Office of hanarotelecom in December 2003.

Myung Heon Choi has served as a Senior Vice President and the Head of the Choongchung Branch Office since January 2006. He was promoted from Vice President to Senior Vice President on January 1, 2006. He worked at the Local Network Facility Headquarters of Dacom before joining hanarotelecom as the Head of the Choongchung Branch Office in December 2003.

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Sang Jin Jeun has served as a Senior Vice President and the Head of the Communications Unit since January 2006. He was appointed on January 1, 2006. He received a bachelor of arts in government and international affairs from Augustana College in 1989 and a master of arts in east Asian studies from University of Illinois at Urbana-Champaign in 1991. From October 2005 and January 2006, he served as head of the Internal Communications of SC First Bank.

Marshall J. Cochrane has served as a Senior Vice President and Chief Procurement Officer since February 2006. He was appointed on February 27, 2006. He received a bachelor of arts in sociology from United States International University and a masters in industrial administration from Carnegie Mellon University. He has served as Vice President of Pac TelSBC Corp and Chief Procurement Officer of Cochrane Consulting Services.

Kyung Yu Min has served as a Senior Vice President and the Head of the Kyungbuk Branch Office of hanarotelecom since April 2006. He served as the Head of the Leased Line Team Facilities Part at Dacom prior to joining hanarotelecom as the Head of the Product Planning Unit (Vice President) in 2005. He was promoted to the Head of the Kyungbuk Branch Office (Senior Vice President) on April 17, 2006.

Yeon Ho Kim has served as a Senior Vice President and the Head of the Kangnam Branch Office since April 2006. He worked at the SI Headquarters of Samsung SDS before joining hanarotelecom as the Head of the Business Development 1 Team (Vice President) under the Business Development Unit on February 14, 2005. After working as the Head of the Information and Technology Unit (Senior Vice President), he became the Head of the Kangnam Branch Office (Senior Vice President) on April 17, 2006.

Myung Ju Ko has served as a Senior Vice President and the Head of the Human Resources Headquarters Unit since April 2006. He received a bachelor of arts in archaeology and art history from Seoul National University. He worked at Daewoo Motor, Hungkuk Life Insurance, Daehan Synthetic Fiber and Sehwa Girls' High School. On April 1, 2006, he joined hanarotelecom as the Head of the Human Resources Headquarters Unit (Senior Vice President).

Baeky Rhee has served as a Senior Vice President and an Executive Vice President of Hanaro T&I, Inc. since April 2006. He received a bachelor of engineering from Inha University and a master of arts from the Graduate School of Business Administration of Ajou University. He served as a partner of PWC Consulting, general manager of Customer Relationship Management at Locus Technologies and general manager of telemarketing at AIG Life Insurance. On April 24, 2006, he became a Senior Vice President of hanarotelecom and an Executive Vice President of Hanaro T & I, an affiliate of hanarotelecom.

There are no family relationships between our directors and officers.

The board of directors and executive officers may be contacted through our headquarters at hanarotelecom incorporated., 17-7 Yeouido-dong, Yeongdeungpo-gu, Seoul 150-874, Korea.

B. Compensation

We paid an aggregate of Won 2.0 billion as compensation during 2005 to our directors and executive officers as a group. In addition, we set aside or accrued during 2005 an aggregate amount of Won 1.88 billion to provide retirement and severance benefits for our directors and executive officers (including our statutory auditor). Of this amount, Won 1.79 billion was paid to directors and outside directors and Won 0.08 billion was paid to our audit committee members in 2005. In particular, the paid amount includes retirement and severance benefits paid to our former Representative Director Chang Bun Yoon, who resigned on August 12, 2005.

We also granted to our directors and executive officers 2,922,250 stock options during 2005 and 2006 under our stock option plan. For a detailed description of the stock options, as well as the stock option plan, see "Item 6.E. Share Ownership—Stock Option Plan."

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From January 1, 2005 to March 31, 2006, a total of 5,260,000 stock options were granted and 2,337,750 stock options were cancelled. As of the end of April 2006, we have outstanding employee stock options to purchase a total of 17,936,481 common shares.

C. Board Practices

Board of Directors

General. The board of directors has the ultimate responsibility for the administration of the affairs of hanarotelecom. Our Articles of Incorporation, as currently in effect, provide for a board of directors comprised of standing directors and non-standing directors, including outside directors. Non-standing directors have the same rights and duties as those of standing directors, but are not officers, or otherwise employees, of hanarotelecom. Under the Korean Commercial Code and our Articles of Incorporation, directors serve a three-year term but if the term ends prior to the date of the ordinary general meeting of shareholders in the last fiscal year of their term, the term will be extended until the close of the ordinary general meeting of shareholders. Our Articles of Incorporation provide for a board of directors consisting of up to ten directors in total. Our Articles of Incorporation further provide that any person who is employed by a company that conducts business in Korea that is in competition with our business objectives or a company belonging to the same group of companies as such competitor company pursuant to the Monopoly Regulation and Fair Trade Act, cannot be a director of hanarotelecom and any existing director (including those who were appointed prior to the amendments to the Articles of Incorporation) shall immediately lose his or her directorship if the foregoing restriction becomes applicable. The directors are elected at a general meeting of shareholders by a majority of the vote of the shareholders present or represented, subject to such majority equaling at least one-quarter of all issued and outstanding shares with voting rights. None of our directors is party to a service contract with us that provides for benefits upon termination of employment.

Shareholders' Agreement. Our major shareholders that form the investment consortium led by AIG, Newbridge and TVG are parties to a shareholders' agreement governing the terms of their investments in us. See "Item 7.A. Major Shareholders" for more information with respect to the beneficial ownership of our common shares by the major shareholders. Wilfried Kaffenberger, David Yeung, Paul Chen, Varun Bery, Steven J. Schneider, Afshin Mohebbi, Peter Whang and Byung Moo Park were appointed to the board of directors of hanarotelecom pursuant to the terms of the agreement.

Under the Korean Commercial Code and our board regulations, any director that has a special interest with respect to the agenda of a board meeting may not exercise his voting rights in such board meeting.

Audit Committee. Under the Korean Securities and Exchange Act, we must establish an audit committee instead of appointing a statutory internal auditor. Our Articles of Incorporation and Audit Committee Regulations provide that the Audit Committee, which must consist of three or more directors, and of which at least two-thirds should be outside directors, is responsible for examining internal transactions and potential conflicts of interest and reviewing accounting and other relevant matters. The Audit Committee has the right to request the board of directors to convene a shareholders' meeting by providing a document that sets forth the agenda and reasons.

Our board of directors established the Audit Committee on March 17, 2000 in accordance with our Articles of Incorporation. Our Audit Committee consists of three outside directors: Sung Kyu Park, Sun Woo Kim and Peter Whang. Mr. Sung Kyou Park serves as the chairman of the Audit Committee. Byung Moo Park was appointed as Representative Director and Peter Whang was appointed as an audit committee member who is specially related to the largest shareholder.

Remuneration Committee. We have a President Compensation Committee and an Officers Compensation Committee. The President Compensation Committee is composed of our outside directors, Varun Bery and Paul Chen, and our non-standing directors, David Yeung and Wilfried Kaffenberger. David Yeung serves as chairman of the four-member committee. The Officers Compensation Committee is

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composed of our Representative Director Byung-Moo Park, outside directors, Varun Bery and Paul Chen, and non-standing directors, David Yeung and Wilfried Kaffenberger. David Yeung serves as chairman of the five-member committee.

Outside Directors. Our outside directors are appointed from among those persons who do not have a special relationship with us that would interfere with the exercise of their independent judgment. Our Articles of Incorporation prohibit a person who does not have the qualifications under the Korean Securities and Exchange Act or any other statutes from being appointed as an outside director, and in the event that an outside director falls under one of these categories, then he or she will be disqualified from office.

Paul Chen, Varun Bery, Steven J. Schneider, Afshin Mohebbi, Sung Kyou Park and Sun Woo Kim currently serve on the board of directors as outside directors.

For additional information on board practices, see “Item 6.A. Directors and Senior Management.”

D. Employees

As of December 31, 2005, we had a total of 1,461 employees and an additional 128 full-time employees employed on a contractual basis. The following chart shows the number of permanent employees by functional areas.

	As of December 31,		
	2003	2004	2005
Planning and management.	169	258	171
Information technology	54	55	57
Marketing and sales	565	480	479
Network and engineering.	647	684	711
Research and development	54	55	43
Total	<u>1,489</u>	<u>1,532</u>	<u>1,461</u>

We have a trade union, called “hanarotelecom Trade Union,” which is a member organization of the Federation of Korean Trade Union. Of the 1,199 employees who could apply for the union membership, 92.9% or 1,114 are members, of which seven members are serving as full-time union members. We have not experienced any work stoppages. We consider our relations with employees to be good.

As with most other Korean companies, our employees are granted wage increases annually. In addition, we provide other benefits to our employees, including subsidized housing, medical care and financial assistance with the education of their children.

In accordance with Korean labor laws, employees who terminate their employment with more than one year of service are entitled to receive a lump sum payment based on the length of their service and their rate of pay at the time of leaving our employment. They do not receive a pension annuity from us.

As of December 31, 2005, we have provided loans and guarantees to our employees in the amount of Won 15.1 billion for the purchase of our common shares through our employee stock ownership association. The loans are secured by the shares purchased. As of May 31, 2006, we have also provided housing loans to our employees in the amount of Won 8.6 billion, of which 1.45 billion was newly provided during 2005. These loans are secured by accrued severance benefits of the borrowing employees. As of May 31, 2006, we have not experienced any defaults under these loans. The loans are provided as a benefit to our employees and are not required under Korean law. Our officers and directors are not eligible for these loans.

During 2005, we averaged 13 part-time employees at the end of each month.

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E. Share Ownership

No director or member of senior management beneficially owns 1.0% or more of our shares on an individual basis.

Stock Option Plan

We may, by special resolution of the shareholders, grant stock options to our officers and employees who have contributed or are qualified to contribute to our establishment, management and technical innovation pursuant to our Articles of Incorporation and the Korean Securities and Exchange Act, exercisable for up to an aggregate of 15% of our total number of issued and outstanding shares, provided that up to an aggregate of 1% of our total number of issued and outstanding shares may be granted by resolution of the board of directors. However, stock options may not be granted to (1) our largest shareholder or its related parties, (2) any shareholder or its related parties who owns, directly or indirectly, 10% or more of our outstanding shares having voting rights or certificates of capital contribution of paid-in capital, or (3) an officer or employee who becomes a major shareholder as described in paragraph (2) above upon exercise of the stock option.

According to our Articles of Incorporation, the stock options are exercisable for our common shares at an exercise price per share determined according to relevant laws and regulations. The stock option must be exercised within five years from the date on which the stock option may first be exercised.

The stock option may be cancelled by a resolution of our board of directors (1) if the officer or employee holding the option resigns voluntarily or is discharged from office; (2) if the officer or employee holding the option by willful misconduct or by negligence inflicts substantial or material damage to us, or (3) in the event of the occurrence of any cause for cancellation of stock options specified in the stock option agreement between us and the officer or employee.

On March 1, 1999, we granted stock options to our then Director, President and Chief Executive Officer, Mr. Yun-Sik Shin. Mr. Shin resigned from his offices on March 28, 2003. Until his options are cancelled by a resolution of our board of directors, Mr. Shin may exercise his options to purchase 50,000 shares of common shares at the price of Won 5,630 per share during the period beginning on March 1, 2002 and ending February 27, 2007. On October 1, 1999, we granted stock options to some of our directors, officers and statutory internal auditor to purchase 120,000 shares of common shares at the price of Won 19,910 during the period beginning on October 1, 2002 and ending on September 30, 2007. The exercise price per share was set at the minimum price permitted under the working rules of the Korean Securities and Exchange Act applicable at the time the options were granted. Pursuant to the working rules of the Korean Securities and Exchange Act, the formula for determining permissible price for the stock options granted on March 1, 1999 and October 1, 1999 was the higher of (1) the average of the closing prices of the common shares during a three month period prior to the date of the special resolution of the shareholders granting the stock option and (2) the par value of the common shares.

On March 17, 2000, we granted 882 of our employees (including certain directors and officers), employed by us as of December 31, 1999, stock options to purchase a total of 1,771,566 common shares at a price of Won 17,750 per share during the period beginning March 18, 2003 and ending March 17, 2008. We allocated the stock options based on employee seniority and position. The employees' exercise price per share was set at the minimum price permitted under the amendment of the working rules of the Korean Securities and Exchange Act, effective from March 15, 2000. Under the price formula currently in effect, the option price per share shall be the higher of (1) the average of (x) the weighted average of the closing prices of the common shares during a two-month period immediately preceding the option granting date, (y) the weighted average of the closing prices of the common shares during the one-month period immediately preceding the option granting date, and (z) the weighted average of closing prices of the common shares during the one week period immediately preceding the option granting date, and (2) the par value of the common shares.

No stock options were granted at the shareholders' meetings held in 2001, 2002 and 2003.

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On December 16, 2004, we granted 1,451 of our employees (including certain directors and officers), employed by us as of October 25, 2004, stock options to purchase a total of 19,772,890 common shares at a strike price currently of Won 5,000 per share during the period beginning December 17, 2006 and ending December 16, 2011.

On March 25, 2005, we granted seven of our officers stock options to purchase a total of 610,000 common shares at a price of Won 5,000 per share during the period beginning March 26, 2007 and ending March 25, 2012.

On February 27, 2006, we cancelled stock options granted to 13 former and current officers (including Senior Executive Vice President Janice Lee) to purchase a total of 1.9 million common shares (following a voluntary surrender of such options by the holders), and on March 8, 2006 we cancelled stock options granted to seven officers (including then Chairman and CEO Soon Yub Kwon) to purchase a total of 2.13 million common shares (following a voluntary surrender of such options by the holders). On March 24, 2006, we granted seven of our officers (including Senior Executive Vice President Janice Lee) stock options to purchase a total of 4.65 million common shares. The exercise price is Won 5,000, and the exercise period is from March 25, 2008 to March 24, 2013.

We have outstanding employee stock options to purchase a total of 17,936,481 common shares.

Stock Ownership Association

An employee stock ownership association under the Employee Welfare Basic Law is an association formed by the employees of a corporation for the purpose of acquiring and managing stocks issued by such corporation. Only full-time workers of a corporation may join the employee stock ownership association and officers elected by a shareholders' meeting, shareholders of such corporation (excluding certain minority shareholders), and part-time workers are not qualified to become a member of the association. The right to become a member of the employee stock ownership association must be available to all full-time employees and the regulations governing the association must contain certain matters relating to the operation and management of the association.

We established our employee stock ownership association in November 1997. As of December 31, 2004, 500 employees of hanarotelecom were depositing members of the employee stock ownership association and the association held 2,667,982 shares of our common shares. As of March 31, 2006, 370 employees of hanarotelecom were members of the employee stock ownership association and the association held 1,088,823 common shares.

Item 7. Major Shareholders and Related Party Transactions.

A. Major Shareholders

The following table sets forth information with respect to the beneficial ownership of our common shares, on a fully diluted basis, as of December 31, 2005, by each person known to us to own beneficially more than 1% of our common shares.

Name	Shares Beneficially Owned as of December 31, 2005	
	Number	Percent
AIG-Newbridge-TVG Consortium	182,812,500	39.56%
SK Telecom	22,090,000	4.78
Dacom and its affiliated companies	18,727,291	4.05
Korea Investment and Trust Management Co., Ltd.	15,993,227	3.46
Daewoo Securities	12,000,000	2.60
Credit Suisse Financial	6,054,513	1.31

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Name	Shares Beneficially Owned as of December 31, 2005	
	Number	Percent
NTC-SAUDI ARAB MASTER FU	4,999,155	1.08

The number of shares held by the AIG-Newbridge-TVG Consortium includes shares directly held by Newbridge Asia HT, L.P., AIF II NT Ltd., AOF NT, Ltd., United Classic Investment Limited and five other HT Holdings L.P. companies. As of December 31, 2005, Newbridge directly owned 49,535,799 common shares, AIF II NT Ltd. directly owned 38,456,250 common shares, AOF NT, Ltd. directly owned 24,721,875 common shares, United Classic Investment Limited directly owned 20,392,746 common shares and the HT Holdings L.P. companies directly owned 49,705,830.

The number of shares held by Dacom includes shares directly held by LGEI Inc. and LG Telecom Co., Ltd. Dacom and the other two companies are members of the LG Group. As of December 31, 2005, Dacom directly owned 8,964,561 common shares and LG Telecom directly owned 5,397,574 common shares.

None of hanarotelecom's common shares entitles the holder to any preferential voting rights.

As of April 1, 2001, we and our Korean affiliates have been designated as member companies of a "business group subject to restrictions on debt guarantees" as well as a "business group subject to restrictions on mutual shareholding" by the FTC based on the new criteria prescribed by the amended Monopoly Regulation and Fair Trade Act.

As of the end of 2005, the number of US residents holding ADRs or our original shares (including Deutsche Bank which was counted as one shareholder) on our shareholder registry was 72 and they owned a total of 7,139,747 common shares, or 1.55% of our outstanding common shares.

We know of no arrangements the operation of which may at a later time result in a change of control.

B. Related Party Transactions

Relationship with AIG-Newbridge-TVG Consortium

On November 18, 2003, we issued common shares pursuant to an Investment Agreement dated September 9, 2003. The Investment Agreement provides that we will not take certain significant corporate actions without the consent of the investors so long as the investors, together with their affiliates, continue to hold an aggregate of 15.0% or more of our outstanding common shares. We also entered into an Investors' Rights Agreement with the investors and a Management Rights Agreement with certain of the investors, each dated as of November 18, 2003.

As of December 31, 2005, the AIG-Newbridge-TVG Consortium beneficially owned an aggregate of 39.56% of our outstanding common shares.

Investors' Rights Agreement

Pursuant to the Investors' Rights Agreement, we have provided certain registration rights to the investors with respect to the shares in which they originally invested. We have agreed to file with the U.S. Securities and Exchange Commission, or SEC, a shelf registration statement on Form F-3 covering resales of the investors' shares by the holders thereof within 90 days after the written request of the investors' representative (made not less than 360 days after November 18, 2003). We are not required to effect and complete more than three such shelf registration statements. In addition, such holders have certain rights to "piggyback" on other registration statements relating to our common shares and the right to cause us to effect up to six demand registrations pursuant to the terms of the Investors' Rights Agreement. The term of this agreement terminates upon the earlier of (1) the sixth anniversary of November 18, 2003 or (2) the

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date as of which all of the registrable securities have been sold pursuant to a registration statement or the holders are permitted to sell their registrable securities under Rule 144(k) under the Securities Act.

Management Rights Agreement

Pursuant to the Management Rights Agreement, we have granted to certain of the investors or their affiliates, certain management rights in hanarotelecom so long as such investor owns any the shares in which they originally invested, including, but not limited to, the right to make proposals, recommendations and suggestions to our board of directors, the right to discuss our and our subsidiaries' business and affairs with our board of directors, officers and independent accountants, the right to examine our books, records and documents as may be reasonably requested and the right to be informed in advance with respect to any significant corporate actions.

Relationship with Dacom

As of December 31, 2005, Dacom and its affiliated companies beneficially owned 4.05% of our common shares.

We have entered into several interconnection agreements with Dacom with respect to Dacom's domestic and international long distance networks and data communications network, several of our local telephony service areas and certain telecommunications facilities. We have also acquired from Dacom a right to use two Korea — Japan international leased lines each supporting a bandwidth capacity of 155 Mbps, three Korea — Asia international leased lines (half circuits), two Korea — Vietnam international leased lines (half circuits) and two Korea — Belgium leased lines (half circuits). In addition, we have an agreement with Dacom which allows our subscribers who use Dacom for domestic and international long-distance services to receive only one monthly statement for local, long-distance and international call charges.

Relationship with SK chaebol

As of December 31, 2005, SK Telecom beneficially owned 4.78% of our outstanding shares. In December 1998 and in February 2001, we entered into an interconnection agreement with SK Telecom, under which we interconnect to SK Telecom's mobile telecommunications network and wireless paging service network. The interconnection charges are based on the standard rates established by the Korean government. Pursuant to the February 2001 agreement, we entered into a further agreement with SK Telecom in July 2001, under which SK Telecom's mobile telecommunications network is connected to our local telephone network in the following cities: Jeon-ju, Changwon/Masan, Chung-ju, Chun-ahn and Su-chun.

We also leased our office space of a building in Bundang-Ku, Sungnam from SK Telecom for which we paid a rental deposit of Won 2.1 billion for five years from May 3, 1999 until May 2, 2004. We have continued to lease the space under the same terms.

Relationship with Cable Television Network System Operators

On December 15, 2004, we entered into four agreements with the Joong-Ang MSO, a consortium of 12 cable television network system operators pursuant to which we agreed to sell all of our shares in Hanaro WEB(n)TV to the Joong-Ang MSO for a purchase price of Won 32.0 billion and to outsource our sales, customer service and HFC cable related services to the Joong-Ang MSO. In addition, the Joong-Ang MSO has agreed not to engage in the broadband Internet access business or to cooperate with or enter into similar agreements or arrangements with another ISP for a period of five years from December 15, 2004.

We have agreements with GS Digital Broadcasting, Korea Cable TV Taegu Broadcasting, Korea Cable TV Kwangju Broadcasting, Chungbuk Broadcasting and Hanbat Cable Network pursuant to which we agreed to provide our HFC network to these cable television network system operators. These cable television network system operators are responsible for maintaining subscriber lines and subscriber

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relationships (including customer service, troubleshooting and related services) within those areas where they are licensed to provide cable broadcasting services. Through our relationships with cable television network system operators, we seek to establish mutually beneficial arrangements with respect to the provision of broadband Internet access, marketing, sales and customer services.

For time to time, we have provided secured or guaranteed interest-free loans to cable network operators. These loans were provided pursuant to a loan program we commenced in 2000 as a means of ensuring that cable television network system operators, with which we had or intended to have network leasing arrangements, had the funds to upgrade their networks. The terms of each of those loans require repayment after a specified period (ranging from one year to three years) from the date of the loan by equal installments on a quarterly basis for two years. As of December 31, 2005, we had outstanding interest-free loans to a cable network operator in the amount of Won 70 million. The loan agreements require the cable network operators to use the loan proceeds to upgrade their systems so that our services can be provided over their networks. The loan agreements also require the borrower to lease to us its cable network for our HFC-based Internet access services upon completion of the system upgrade.

Relationship with Dreamline

In December 2001, we acquired a 32.2% equity interest in Dreamline and in January 2002, we entered into an agreement with Dreamline to outsource to it our subscriber sales business. Our equity interest in Dreamline was reduced to 14.18% in January 2004. The scope of the outsourced business includes management of our subscribers, attracting new subscribers, receipt of subscriptions and handling other subscription related operations. In April 2002, we also entered into an agreement with Dreamline to outsource to it the business of managing our marketing channels and regional sales offices and to provide installation and customer services to our subscribers in our HFC service areas. The term of each of these agreements is one year (renewable for one year periods), and has been renewed on the same terms and is currently in effect. Under a stock purchase agreement with CJ Corporation, the previous controlling shareholder of Dreamline, CJ Corporation, has an obligation not to compete, directly or indirectly, with us in the leased line and broadband services or other related or similar services for five years from the closing of the stock purchase agreement. However, affiliates of CJ Corporation have been engaged in business in those service areas, and we filed certain lawsuits against CJ Corporation to enjoin its affiliates from providing such services and to seek monetary compensation caused by said violation and CJ Corporation's failure to disclose certain contingent tax liabilities. See "Item 8.A. Consolidated Statements and Other Financial Information — Legal Proceedings."

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information.

A. Consolidated Statements and Other Financial Information

The information required by this item is set forth in our consolidated financial statements starting on page F-1 of this Annual Report.

Legal Proceedings

Legal Proceeding related to Horizontal Collusion with other Telecommunications Companies

In 2005, the Korean Fair Trade Commission, or the FTC, announced that, together with KT, we formed a price cartel with other telecommunications companies with respect to local telephony service, leased line service, domestic long distance telephony service and broadband service, and imposed an

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aggregate fine of Won 2,498 million and certain administrative orders, including publication of our violation in a daily newspaper. We have objected to the monetary fine and certain administrative orders, and have subsequently filed a series of lawsuits against the FTC in the Seoul High Court, seeking cancellation of the fines and certain administrative orders imposed by the FTC against us. Currently, three lawsuits are pending, and the outcomes of these lawsuits are uncertain.

Following the announcement of the FTC decision, a citizen activist group announced its intention to solicit subscribers harmed by the horizontal collusion to file a civil lawsuit against us and KT. After such solicitation, in October 2005, a total of 484 of our subscribers for local telephony service have filed lawsuits seeking monetary damages from us and KT, based on the FTC conclusion of horizontal collusion with respect to local telephony service. The lawsuits are pending in the Seoul Central District Court and we are uncertain as to the outcome of the lawsuits. If damages are awarded to the plaintiffs in these lawsuits, we may face additional actions from the same subscribers based on findings of horizontal collusion with respect to other services and/or by other subscribers based on similar grounds. The outcome of current or any possible related lawsuits may adversely affect our competitive environment.

Legal Proceedings related to Internet Outage

On January 25, 2003, the Slammer Worm originating from countries such as the United States and Australia infected the MS SQL Server 2000 of Microsoft Corporation and disrupted the Internet service between Microsoft and a number of other Internet service providers, including us. As a result, numerous Internet users experienced outages for five hours and five minutes on their email servers and websites. We are a party to some legal proceedings in relation to such outages, including one proceeding we assumed from Thrunet as a result of our merger with Thrunet.

On February 25, 2003, with the help of the Green Consumer Network, a citizen activist group, seven customers filed a petition with the Communications Commission. On October 13, 2003, the Communications Commission awarded damages to the petitioners according to the terms of our standard hanafos service agreement. However, the Communications Commission awarded only actual damages for the disruption of service for five hours, without imposing a penalty on us, which resulted in an award of Won 1,974 for the seven petitioners. To challenge this award, we filed a countersuit with the Seoul Central District Court on December 12, 2003, seeking declaratory judgment that we have no liability against the petitioners.

On April 30, 2003, 1,516 Internet users (out of whom 421 were our customers), 71 Internet cafe owners and OhmyNews, Co., Ltd., an Internet news media business, also sued a number of Internet service providers, including us, Microsoft, and the Government for failure to provide stable Internet service without major disruptions, negligence in maintaining a stable network system and failure in taking necessary measures to prevent further damage. The total sum claimed by these plaintiffs is Won 0.1 billion. Among these lawsuits, the court rejected a lawsuit filed by OhmyNews alleging that the defendant has no obligation to procure a stable network system against OhmyNews, Co., Ltd., which was not a direct customer under any agreement with the defendant.

The legal proceedings immediately described above (other than the lawsuit raised by OhmyNews Co., Ltd.) are currently pending in the Seoul Central District Court. We are not certain whether the outcome of the above legal proceedings will be decided in our favor. If we lose, we may face additional legal actions based on similar grounds by other customers or Internet users, which could adversely affect our business, financial condition and results of operations.

Legal Proceedings against CJ corporation

In December 2001, we acquired 32.2% equity interest in Dreamline, which was reduced to 14.18% in January 2004. Under a stock purchase agreement with CJ Corporation, the previous controlling shareholder of Dreamline, CJ Corporation, has an obligation not to compete, directly or indirectly, with us in the leased line and broadband services or other related or similar services for five years from the closing of the stock purchase agreement. However, CJ Corporation has continuously been engaged in competition with us in those service areas through its affiliates, and on August 23, 2005, we commenced a

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lawsuit in the Seoul Central District Court against CJ Corporation seeking to enjoin CJ Corporation from engaging in such business through its affiliates. Our claim also included compensation for damages caused by said violation and failure of CJ Corporation to disclose certain contingent tax liabilities in connection with our acquisition of the equity interest in Dreamline in the amount of about Won 16.8 billion. We also filed a preliminary injunction in the competent court seeking immediate suspension of CJ Corporation engaging in prohibited business through its affiliates. We won the preliminary injunction in the Seoul Highest Court, and the court decided in our favor to impose on CJ Corporation a monetary penalty equivalent to Won 20 million per day, if CJ Corporation continuously engages in such prohibited business during the period prohibited under the stock purchase agreement. CJ Corporation appealed the injunction awarded by the court. The court has not yet issued a final decision on the preliminary injunction, and the main lawsuit has not been finally determined. We are also discussing with CJ Corporation the possible settlement of all relevant lawsuits subject to the satisfaction of certain conditions, but a conclusive settlement has not yet been reached.

Other Legal Proceedings

There are several other legal proceedings to which we are a party. However, such pending legal proceedings involve minor claims, none of which is likely to have a material adverse effect on our business or financial condition.

Dividend Policy

Under our Articles of Incorporation, we are permitted to pay dividends to our shareholders beginning in the first fiscal year in which our aggregate carried-over loss incurred since the date of commencement of our local telephony services has been made up in full. In addition, the declaration and payment of dividends are subject to our earnings, our financial condition and other factors. We may decide that it is not in our best interest to pay dividends in any particular period. We currently expect to pay no dividends for 2006. If we declare cash dividends, the dividends will be paid to the depository for the ADSs in Won and then converted by the depository into U.S. dollars.

B. Significant Changes

None.

Item 9. The Offer and Listing

A. Offer and Listing Details

Market Price Information

With the enactment of the Korea Securities and Futures Exchange Act, which came into effect on January 27, 2005, the three existing spot and futures exchanges (which were the Korea Stock Exchange, Korean Futures Exchange, and KOSDAQ) and KOSDAQ Committee, a sub-organization of Korea Stock Dealers Association, were merged and integrated into a newly established joint-stock company called the Korea Exchange Inc. or the KRX. There are three different markets run by the KRX: the KRX Stock Market, the KRX KOSDAQ Market and the KRX Futures Market. The KRX, headquartered in Busan, has one branch located in Seoul. Our common shares are traded on the KRX KOSDAQ Market, under the symbol "033630." Our shares were listed on Korea Securities Dealers Association Automated Quotation Market (KOSDAQ) in November 1998.

The KOSDAQ market index is computed by taking the aggregate market capitalization of all companies included in the index as a percentage of the market capitalization of the base date (July 1, 1996), multiplied by 100. From January 26, 2004, the base figure has changed to 1,000.

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The most widely followed price index of stocks quoted on stock exchanges in Korea is the Korea Composite Stock Price Index, or KOSPI, an index of all equities listed on the KRX Stock Market. The KOSPI is computed by aggregating the market capitalization of all listed companies and (subject to certain adjustments) by expressing this aggregate as a percentage of the aggregate market capitalization of all listed companies as of the base date (January 4, 1980).

The following table sets forth, for the periods indicated, (1) the high and low sales price for our common shares as reported on the KRX, (2) the average daily trading volume of our shares, (3) the highs and lows of the KOSDAQ Index and (4) the highs and lows of the KOSPI:

	Price per share of our common shares		Average daily trading volume of our shares	KOSDAQ		KOSPI	
	High	Low		High	Low	High	Low
Year ended December 31							
2001	Won 5,580	Won 1,930	6,508,725	876.50	460.50	704.50	468.76
2002	7,850	3,120	5,082,647	943.00	436.70	937.61	584.04
2003	4,420	2,100	6,339,993	535.00	346.40	822.16	515.24
2004	3,650	2,345	2,073,122	491.53	324.71	936.06	719.59
2005	3,585	2,380	3,471,167	747.96	390.40	1,379.37	870.84
Quarter Ended							
March 31, 2004	3,650	3,205	1,956,487	458.40	420.28	907.43	821.26
June 30, 2004	3,350	2,345	2,623,955	491.53	361.17	936.06	728.98
September 30, 2004	3,325	2,370	1,798,398	383.84	324.71	857.15	719.59
December 31, 2004	3,640	3,165	1,930,121	382.71	350.70	895.92	808.14
March 31, 2005	3,585	2,865	3,192,942	515.04	390.40	1,022.79	870.84
June 30, 2005	2,880	2,380	2,049,783	503.21	423.30	1,010.80	911.30
September 30, 2005	2,920	2,400	5,136,015	571.95	492.66	1,231.22	1,018.02
December 31, 2005	2,860	2,515	3,443,690	747.96	573.19	1,379.37	1,140.72
March 31, 2006	3,000	2,345	5,240,090	754.97	601.33	1,421.79	1,297.43
June 30, 2006 (through May 31)	6,270	2,600	4,617,081	704.57	620.20	1,464.70	1,295.76
Month Ended							
December 31, 2005	2,665	2,515	3,666,427	747.96	688.23	1,379.37	1,305.98
January 31, 2006	3,000	2,510	7,593,154	754.97	601.33	1,421.79	1,297.43
February 28, 2006	2,720	2,395	5,895,930	682.36	639.92	1,375.97	1,303.84
March 31, 2006	2,690	2,345	2,397,764	679.19	637.41	1,367.70	1,309.83
April 30, 2006	3,090	2,600	5,218,837	704.57	677.28	1,452.53	1,379.75
May 31, 2006	6,270	5,710	3,187,909	691.89	620.20	1,464.70	1,295.76

A reverse stock split (2:1) without payment to shareholders was approved at our annual shareholders' meeting held on March 24, 2006. As a result, the number of total outstanding shares decreased from 463,353,012 to 231,676,506 and paid-in capital decreased from Won 2,316,765,060,000 to 1,158,382,530,000 as of May 3, 2006, the effective date of capital reduction. Due to the closing of the shareholder register, trading was suspended from April 27, 2006 through May 18, 2006. The data set forth above does not include any retroactive adjustments to the price and trading volume of our shares for the reverse stock split. In addition, the above data were tabulated excluding the price and trading volume of our shares during the trading suspension period.

As of May 2, 2006, the number of our shareholders was 105,502. On May 19, 2006, the first day of trading after capital reduction, the closing price of our common shares was Won 6,270 per share. As of May 30, 2006, the closing price was Won 5,880 per share.

Our ADSs have been quoted on the NASDAQ National Market under the symbol "HANA" ("HANAD" for 20 trading days from May 19, 2006, which was the first day of trading after capital reduction) since March 29, 2000. The price of our ADSs on NASDAQ as of its close of trading on May 31, 2006 was \$5.59 per ADS. The table below shows the high and low closing prices of the ADSs on NASDAQ since our listing. The following figures regarding the price and trading volume of the ADSs include the retroactive adjustments to reflect the reverse stock split to all periods prior to such transaction.

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	Price per share of our ADS		Average daily trading volume of our shares
	High	Low	
Year ended December 31			
2001	\$ 8.40	\$ 2.84	19,970
2002	11.36	5.00	4,449
2003	7.54	3.48	9,981
2004	8.76	3.82	19,860
2005	7.26	4.50	5,420
Quarter Ended			
March 31, 2004	8.76	5.30	40,812
June 30, 2004	5.74	4.12	15,710
September 30, 2004	5.98	3.82	16,844
December 31, 2004	6.88	5.72	6,598
March 31, 2005	7.26	5.46	7,016
June 30, 2005	5.80	4.66	7,495
September 30, 2005	5.80	4.70	2,842
December 31, 2005	5.36	4.50	4,384
March 31, 2006	6.00	4.58	3,903
June 30, 2006 (through May 31)	6.30	4.58	4,963
Month Ended:			
December 31, 2005	5.10	4.50	6,939
January 31, 2006	6.00	4.80	5,526
February 28, 2006	5.60	4.62	2,352
March 31, 2006	5.22	4.58	3,775
April 30, 2006	6.30	5.20	6,085
May 31, 2006	5.85	4.58	2,437

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs have been quoted on the NASDAQ National Market under the symbol "HANA" since March 29, 2000. We have decided to pursue deregistration from the SEC and delisting of our ADSs from NASDAQ and the decision was filed with the SEC on February 22, 2006. We will pursue the delisting and deregistration process after the relevant law of the United States is enacted and we meet the basic requirements for such process.

Our common shares have been traded on the KRX KOSDAQ Market under the symbol "033630" since November 1998.

Description of KOSDAQ

The KOSDAQ was launched on July 1, 1996 as an alternative investment market to the Korea Stock Exchange, the principal stock exchange in Korea. With the enactment of the Korea Stock and Futures Exchange Act, which came into effect on January 27, 2005, the three existing spot and futures exchanges (which were the Korea Stock Exchange, Korean Futures Exchange, and KOSDAQ) and KOSDAQ Committee, a sub-organization of Korea Stock Dealers Association, were merged and integrated into a newly established joint-stock company called the Korea Exchange Inc. The KOSDAQ, which became KRX KOSDAQ Market, a division of newly established KRX, is originally modeled after the NASDAQ National Market. However, unlike NASDAQ, shares listed on the KRX KOSDAQ Market are traded by the KRX KOSDAQ Market participants and their brokers through market-makers at a physical exchange located in Seoul, Korea. The participants also use a central electronic trading system designed to increase the speed at which orders are matched. The trading hours for the KRX KOSDAQ Market are 9:00 a.m. to 3:00 p.m. Margin trading is not permitted on the KRX KOSDAQ Market and daily price changes are limited to a range of 15% of the closing price for the previous trading day.

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The KRX KOSDAQ Market has grown significantly since its inception. As of May 31, 2006, 925 companies were listed on the KRX KOSDAQ Market with an aggregate market capitalization of Won 66.3 trillion. The average daily turnover for 2005 was Won 1,793 billion. Market capitalization on the KRX KOSDAQ Market is heavily concentrated in the larger companies, with the top 10 companies comprising approximately 22.70% of total market capitalization and the companies that rank in the top 5% accounting for 38.41% of total market capitalization as of May 31, 2006. Companies listing on the KRX KOSDAQ Market must meet its listing requirements and register with the Financial Supervisory Commission of Korea.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information.

A. Share Capital

On March 24, 2006, our shareholders approved a capital reduction to improve our financial structure. The capital reduction was completed on May 3, 2006, and as a result, our issued and outstanding shares changed to 231,676,506 common shares from 463,353,012 common shares and our paid-in capital changed to Won 1,158,382,530,000 from Won 2,316,756,060,000.

B. Memorandum and Articles of Incorporation

The section below provides summary information relating to the material terms of our capital stock and our Articles of Incorporation. It also includes a brief summary of certain provisions of the Securities and Exchange Act, the Commercial Code and related laws of Korea, all as currently in effect.

Objectives

Article 2 of our Articles of Incorporation states our objectives as follows:

- to play a leading role in the nation's efforts to accomplish a society of multimedia super-highway telecommunications industry by efficient performance of telecommunications business;
- to establish and operate the nation's second basic communication service network, as a preparation against any national disaster or calamity, by establishing diversified communication channels and an automatic recovery system; and
- to enhance the improvement of end users' convenience and public welfare.

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General

Currently, we are authorized to issue 700,000,000 shares of stock. Under our Articles of Incorporation, we are authorized to issue four classes of stock, which are registered common stock, registered preferred stock, registered convertible stock and registered redeemable stock. Our issued and outstanding shares are all registered common stock.

As of June 13, 2006, and as a result of a recent capital reduction, we had a total of 231,676,506 shares issued and outstanding. All of the issued and outstanding shares are fully paid and non-assessable and are in registered form. We may issue additional shares without further shareholders' approval as provided in our Articles of Incorporation. The unissued shares remain authorized until an amendment to our Articles of Incorporation changes the status of the authorized shares to unauthorized shares. We can issue share certificates in denominations of up to 10,000 shares. Our common shares have a par value of Won 5,000 per share.

Directors

No director who has a special interest in a matter for resolution can exercise his vote upon such matter. Under the recent amendment of the Korean Securities and Exchange Act, we are prohibited from lending money (or other equivalent assets) to, or providing security or guaranteeing in favor of each of our board of directors or any of our major shareholders (including any specially related person), except in certain circumstances.

Dividends

Under our Articles of Incorporation, we may pay dividends to our shareholders beginning in the first fiscal year in which our aggregate carried-over losses incurred since the date of commencement of our local telephony services have been made up in full. From such fiscal year, we may distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder following the approval by the shareholders at an annual general meeting of shareholders. The shares represented by the ADSs have the same dividend rights as common shares. We will pay full annual dividends on shares issued during such fiscal year.

We may declare dividends at the annual general meeting of shareholders, which is held within three months after the end of a fiscal year. Dividends will be paid shortly after the annual general meeting declaring such dividends. We may distribute dividends in cash or in shares. However, a dividend in shares must be distributed at par value. If the market price of the shares is less than par value, dividends in shares may not exceed one-half of the annual dividends. We have no obligation to pay any dividend unclaimed for five years from the payment date.

Under the Korean Commercial Code, we may pay an annual dividend only out of the excess of our net assets, on a non-consolidated basis, over the sum of (1) our stated capital, (2) the total amount of our capital surplus reserve and legal reserve accumulated up to the end of the relevant dividend period and (3) the legal reserve to be set aside for the annual dividend. In addition, we may not pay an annual dividend unless we have set aside as legal reserve an amount equal to at least 10% of the cash portion of the annual dividend or unless we have accumulated a legal reserve of not less than one-half of our stated capital. We may not use legal reserves to pay cash dividends but may transfer amounts from legal reserves to reduce an accumulated deficit.

Distribution of Free Shares

In addition to paying dividends in shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. We must distribute such free shares to all our shareholders in proportion to their existing shareholdings.

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Preemptive Rights and Issuance of Additional Shares

We may issue authorized but unissued shares at the times and, unless otherwise provided in the Korean Commercial Code, on such terms as our board of directors may determine. We must offer new shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders' register as of the relevant record date.

Our shareholders are entitled to subscribe for any newly issued shares in proportion to the number of shares they own, except that under our Articles of Incorporation, if the new shares will be (1) issued to the public in accordance with the Korean Securities and Exchange Act, (2) issued by public offering in accordance with the Korean Securities and Exchange Act, (3) issued to our employee stock ownership association as provided in the Korean Securities and Exchange Act, (4) issued in the form of depositary receipts in accordance with the Korean Securities and Exchange Act, (5) issued upon the exercise of stock options which are provided in accordance with the relevant provision of the Korean Securities and Exchange Act, (6) issued to a foreign telecommunications company or a foreign financial or investment company that has completed the foreign investment procedures for the purpose of a strategic alliance relating to our business or (7) issued to domestic and foreign investors or our officers or employees up to an amount not exceeding 50% of the then current total issued and outstanding shares for the purpose of realizing our business objectives, including, but not limited to, improving our financial structure and entering into new business areas, our board of directors may pass a resolution to issue the new shares to persons other than existing shareholders.

We must give public notice of preemptive rights regarding new shares and their transferability at least two weeks before the relevant record date. We will notify shareholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to such deadline. If a shareholder fails to subscribe by the deadline, the shareholder's preemptive rights will lapse. Our board of directors may determine how to distribute shares for which preemptive rights have not been exercised and fractional shares.

Under the Korean Securities and Exchange Act, employee stock ownership associations of the companies that are listed or will be listed on the KRX Stock Market generally have a preemptive right to subscribe for up to 20% of the shares publicly offered. Although we are not a company whose shares are listed on the KRX Stock Market, we have by our Articles of Incorporation opted to grant a right of preemption to our employee stock ownership association on the same terms as are applicable to companies listed on the KRX Stock Market.

General Meeting of Shareholders

We hold the annual general meeting of shareholders within three months after the end of each fiscal year. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

- as necessary;
- at the request of holders of an aggregate of 3% or more of our outstanding shares;
- at the request of shareholders holding an aggregate of 1.5% or more of our outstanding shares for at least six months; or
- at the request of our audit committee.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks prior to the general meeting of shareholders. However, for holders of less than 1% of the total number of issued and outstanding voting shares, we may give notice by placing not less than two notices in each of the two daily newspapers published in Seoul, Korea such as "The Seoul Shinmun" and "Maeil Economic Daily Newspaper," at least two weeks in advance of the meeting. Shareholders not on

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the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting.

Our shareholders' meetings are held in Seoul, Korea.

Voting Rights

Holders of our shares are entitled to one vote for each share. However, shares held by us (i.e., treasury shares) or by any corporate entity in which we have, directly or indirectly, greater than a 10% interest, do not exercise voting rights. The Korean Commercial Code permits cumulative voting pursuant to which each share entitles the holder thereof to multiple voting rights equal to the number of directors to be elected at such time. A holder of shares may exercise all voting rights with respect to his or her shares cumulatively to elect one director, unless the Articles of Incorporation provide otherwise. However, our Articles of Incorporation do not provide for cumulative voting.

Our shareholders may adopt resolutions by an affirmative vote of the voting shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of our total voting shares then issued and outstanding. However, under the Korean Commercial Code and our Articles of Incorporation, the following matters require approval by the holders of at least two-thirds of the voting shares present or represented at a meeting, where the affirmative votes also represent at least one-third of our total voting shares then issued and outstanding:

- amending our Articles of Incorporation;
- removing a director;
- effecting a capital reduction;
- effecting any dissolution, merger or consolidation with respect to us;
- transferring all or any significant part of our business;
- the acquisition of all of the business of any other company;
- the acquisition of a part of the business of any other company, which significantly affects our business;
- lease of entire business, delegation of business operations, or the execution, modification or cancellation of agreements from which profit/losses shall affect both parties;
- issuing new shares at a price below par value; or
- any other matters for which a resolution is required under relevant laws and regulations.

Shareholders may exercise their voting rights by proxy. Under our Articles of Incorporation, the person exercising the proxy does not have to be a shareholder. A person with a proxy must present a document evidencing its power of attorney in order to exercise such voting rights.

Holders of ADRs exercise their voting rights through the ADR depositary. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the depositary as to how to vote the shares underlying their ADSs.

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Rights of Dissenting Shareholders

In some limited circumstances, including the transfer of all or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their shares. To exercise this right, shareholders must submit to us a written notice of their intention to dissent before the applicable general meeting of shareholders. Within 20 days after the relevant resolution is passed, the dissenting shareholders must request us in writing to purchase their shares. We are obligated to purchase the shares of dissenting shareholders within two months after the expiration of the 20-day period. The purchase price for the shares is required to be determined through negotiations between the dissenting shareholders and us. If an agreement on the purchase price for the shares is not made within 30 days from the date of our receipt of the dissenting shareholders' request, we or such dissenting shareholder may request a court in Korea to determine the purchase price. Holders of ADSs will not be able to exercise dissenter's rights unless they withdraw the underlying common shares and become our direct shareholders.

Register of Shareholders and Record Dates

Our transfer agent maintains the register of our shareholders at its office in Seoul, Korea. It registers transfers of shares on the register of shareholders on presentation of the share certificates.

The record date for annual dividends is December 31 of each year. For the purpose of determining shareholders entitled to annual dividends, the register of shareholders may be closed for the period from the day after the record date to the next annual general meeting of shareholders. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the shares, we may, on at least two weeks' public notice, set a record date and/or close the register of shareholders for not more than three months. The trading of shares and the delivery of share certificates may continue while the register of shareholders is closed.

Annual Report

At least one week before the annual general meeting of shareholders, we must make our annual report and audited non-consolidated financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of annual reports, the audited consolidated financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the Korean Securities and Exchange Act, we must file with the Financial Supervisory Commission and the KRX (1) an annual report within 90 days after the end of our fiscal year, (2) a half year report within 45 days after the end of the first six months of our fiscal year and (3) quarterly reports within 45 days after the end of the third month and the ninth month of our fiscal year. Copies of these reports are or will be available for public inspection at the FSC and the KRX.

Transfer of Shares

Under the Korean Commercial Code, the transfer of shares is effected by delivery of share certificates. However, to assert shareholders' rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, a shareholder is required to file his name, address and seal or specimen signature with our transfer agent. A non-Korean shareholder may file a specimen signature in place of a seal, unless he is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notices on his behalf in Korea and file a mailing address in Korea. The above requirement does not apply to the holders of ADSs.

Under current regulations, Korean securities companies and banks, including licensed branches of non-Korean securities companies and banks, investment management companies, an entity licensed to be engaged in futures transaction business under the Korean Futures Transaction Law, internationally

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recognized foreign custodians and the Korea Securities Depository may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans.

Our transfer agent is Korea Securities Depository, located at 34-6, Yoido-dong, Youngdeungpo-ku, Seoul, Korea.

Acquisition of Shares by hanarotelecom

We may not acquire our own shares except in limited circumstances, such as reduction in capital and acquisition of our own shares for the purpose of granting stock options to our officers and employees. Under the Korean Commercial Code and the Korean Securities and Exchange Act, except in the case of a reduction of capital (in which case we must retire the shares immediately), we must resell any shares acquired by us to a third party within a reasonable time. Notwithstanding the foregoing restrictions, under the Korean Securities and Exchange Act, we may acquire our own shares through purchases on the KRX KOSDAQ Market or through a tender offer. The aggregate purchase price for the shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year less the amounts of dividends and legal reserves required to be set aside for that fiscal year, subject to certain procedural requirements.

Corporate entities in which we own a 50% or greater equity interest may not acquire our shares.

Liquidation Rights

In the event of our liquidation, after payment of all debts, liquidation expenses and taxes, our remaining assets will be distributed among shareholders in proportion to their shareholdings.

Inspection of Books and Records

Under the Korean Commercial Code, any individual shareholder or shareholders having at least 3% of all outstanding shares (irrespective of voting or non-voting shares) of a Korean corporation may inspect the books and records of the corporation. Under the Korean Securities and Exchange Act, any individual shareholder or shareholders holding an aggregate of 0.1% or more of all outstanding shares (irrespective of voting or non-voting shares) of a Korean corporation for at least six months may inspect the books and records of the corporation.

Effect of Korean Law

For a description of the effect of relevant Korean laws applicable to us, see “Item 4.B. Business Overview—Korean Telecommunications Laws and Regulations,” “Item 10.D. Exchange Controls” and “Item 10.E. Taxation—Korean Tax Considerations.”

B. Material Contracts

Thrunet Acquisition Agreement

On February 4, 2005, we entered into an agreement with the court receiver for Thrunet relating to the acquisition of Thrunet by us. Under the agreement, we agreed to acquire 99,240,000 Thrunet common shares and an aggregate of Won 223.3 billion of newly issued debt securities of Thrunet for a combined purchase price of approximately Won 471.4 billion. On the day of the agreement, we paid a deposit in the amount of Won 47.1 billion in total, equivalent to 10% of the acquisition price.

Under the amended reorganization plan which was approved by Thrunet’s creditors committee, interested parties’ meeting and the bankruptcy court, Thrunet reduced its capital and as a result, we acquired 96.22% of Thrunet’s outstanding common shares. The Thrunet acquisition agreement requires

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50% of the shares to be acquired by us to be locked up for a one-year period in an account with the Korea Securities Depository.

The agreement provided for limited indemnification. We are not able to claim any damages from Thrunet, the reorganization court or the lead manager for the Thrunet acquisition transaction.

Investment Agreement between hanarotelecom and an Investment Consortium led by AIG, Newbridge and TVG

On September 9, 2003, we entered into an Investment Agreement with AIF II NT, Ltd., AIG Asian Opportunity Fund L.P. (which later assigned its rights and obligations under the Investment Agreement to AOF NT, Ltd.) and Newbridge Asia HT, L.P., referred to as the sponsors below, providing for, among other things, the issuance by us and purchase by the sponsors, together with co-investors designated by the sponsors (together, referred to as the “investors”), of an aggregate of 182,812,500 common shares of hanarotelecom at a purchase price of Won 3,200 per share having an aggregate value of Won 585 billion. The Investment Agreement provides that we will not take certain significant corporate actions without the consent of the investors so long as the investors, together with their affiliates, continue to hold an aggregate of 15% or more of our outstanding common shares. In connection with the Investment Agreement, we entered into an Investors’ Rights Agreement with the investors and a Management Rights Agreement with certain of the investors, each dated as of November 18, 2003. A summary of each such agreement is set forth below.

Investors’ Rights Agreement

Pursuant to the Investors’ Rights Agreement, we have provided certain registration rights to the investors with respect to the shares, in which they invested. We have agreed to file with the SEC a shelf registration statement on Form F-3 covering resales of those shares by the holders thereof within 90 days after the written request of the investors’ representative (made not less than 360 days after November 18, 2003). We are not required to effect and complete more than three such shelf registration statements. In addition, the holders have certain rights to “piggyback” on other registration statements relating to our common shares and the right to cause us to effect up to six demand registrations pursuant to the terms of the Investors’ Rights Agreement. The term of this agreement terminates upon the earlier of (1) the sixth anniversary of November 18, 2003 or (2) the date as of which all of the registrable securities have been sold pursuant to a registration statement or the holders are permitted to sell their registrable securities under Rule 144(k) under the Securities Act.

Management Rights Agreement

Pursuant to the Management Rights Agreement, we have granted to certain of the investors or their affiliates, certain management rights in hanarotelecom so long as such investor owns any shares, in which they invested, including the right to make proposals, recommendations and suggestions to our board of directors, the right to discuss our and our subsidiaries’ business and affairs with our board of directors, officers and independent accountants, the right to examine our books, records and documents as may be reasonably requested and the right to be informed in advance with respect to any significant corporate actions.

Indenture relating to 7% Notes due 2012

On February 1, 2005, we issued an aggregate principal amount of \$500 million of 7% notes due 2012 pursuant to an indenture between us and Deutsche Bank Trust Company Americas, as trustee.

Principal, Maturity and Interest. The notes are limited in initial aggregate principal amount to \$500 million and will mature on February 1, 2012. Interest on the notes accrues at the rate of 7% per annum and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2005.

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We will pay Korean taxes imposed upon the payment of the principal, interest and premium, unless deduction or withholding is required by law, or otherwise required under the indenture.

We may enter into supplemental indentures for various purposes, with or without consent of existing security holders. If the holders of at least a majority in principal amount of the outstanding securities consent, we and the trustee may enter into a supplemental indenture for the purpose of changing the provisions of the indenture. However, no such supplemental indenture will: (1) change the stated maturity of the securities; (2) reduce the principal amount of, or any interest on, or additional amounts payable on, the securities; (3) change the place or currency in which the securities are payable; (4) impair the right to institute suit for the enforcement of any payment on any security; or (5) reduce the quorum requirements to modify the indenture.

Ranking. The notes will rank equally in right of payment to all existing and future unsecured debt of hanarotelecom which is not subordinated to the notes by its express terms.

Covenants. The indenture constrains our ability to assume additional external indebtedness secured by a lien on particular properties. In addition, we are prohibited from entering into any sale/leaseback transaction unless otherwise provided in the indenture. Moreover, under certain conditions of the indenture, we are restricted in our ability to consolidate or merge into, or sell, transfer, lease or convey our assets to any corporation organized under Korean law.

Redemption. We will make an offer to redeem all outstanding securities at a redemption price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and applicable Korean taxes, in the event that a change of control of hanarotelecom and subsequent reduction in rating with respect to the securities occurs after November 13, 2008, or after the cancellation of hanarotelecom's senior secured credit facility agreement with various financial institutions. hanarotelecom is not required to redeem outstanding securities under the above conditions if a third party offers to redeem all outstanding securities at the same or a higher redemption price.

The outstanding securities may also be redeemed at our option in whole at a redemption price equal to 100% of the aggregate outstanding principal amount of the securities, plus accrued interest, if a change in Korean law would oblige hanarotelecom to pay additional taxes with respect to the securities and such obligation cannot be avoided by the use of reasonable measures available to us.

Events of Default. Events of default under the indenture include, among other things: (1) defaults in the payment of principal or any installment of interest; (2) default in the compliance with covenants contained in the indenture; (3) default on an aggregate outstanding principal amount of \$10 million or more of other indebtedness; (4) reduction in rating in connection with a merger transaction that occurs after November 13, 2008, or after the cancellation of hanarotelecom's senior secured credit facility agreement with various financial institutions; (5) a governmental finding of hanarotelecom's bankruptcy or insolvency; and (6) hanarotelecom's voluntary commencement of a case of bankruptcy or insolvency.

Upon the occurrence of an event of default, the trustees or the holders of at least 25% of the aggregate principal amount of the outstanding securities may declare the principal amount of the securities immediately due and payable. The holders of a majority in aggregate principal amount of the outstanding securities may annul the acceleration of payment if: the annulment does not conflict with any judgment or decree; all existing events of default have been cured or waived except nonpayment of the principal amount plus premium and default interest; and compensation to the trustee has been paid.

Secured Credit Facility Agreement

On April 21, 2005, we entered into a secured credit facility agreement with a number of financial institutions, with The Korea Development Bank acting as paying agent and security agent. Under this agreement, the lenders provided to us four credit facilities that consist of the following:

- a U.S. dollar denominated term loan facility in an aggregate amount equal to U.S.\$201,809,520, referred to as the "Facility A Loan" below,

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- a Korean Won denominated term loan facility in the aggregate amount equal to Won 250,047,620,000, referred to as the “Facility B1 Loan” below,
- a U.S. dollar denominated term loan facility in the aggregate amount equal to U.S.\$208,142,860, referred to as the “Facility B2 Loan” below, and
- a revolving credit facility in the aggregate amount equal to Won 60,000,000,000, referred to as the “Facility C Loan” below.

Repayment of Term Loans. We will repay the loan facilities in installments by repaying a certain percentage of the principal amount on dates specified in the agreement. For the Facility A Loan, the first installment was made on February 13, 2006, and the last installment will be made on November 13, 2008. The percentage of principal to be repaid in any single installment ranges from 3.75% to 11.25%. For the Facility B1 Loan and Facility B2 Loan, the initial installments will be made on February 13, 2007, and the last installments will be made on May 13, 2010. The percentage of principal to be repaid in any single installment ranges from 6.0% to 8.0%.

Change of Control. The agreement provides that upon the occurrence of a “change of control triggering event,” we will be required to repay the full amount of the outstanding loan and cancel the lender’s obligations under the facilities. For the purposes of the agreement, a “change of control triggering event” means the occurrence of both a change of control and a reduction in the rating with respect to our debt securities or, in the event that our debt securities cease to be outstanding or rated, our company rating. A change of control means the consummation of any transaction in which any person or group other than AIG Investors, the Newbridge Investor, TVD Ltd. or any other company or partnership that is directly or indirectly controlled by American International Group, Inc., Newbridge Capital, Inc. or TVG Ltd. is or becomes the beneficial owner of more than 45% of our voting stock.

Voluntary Cancellation. Subject to certain conditions, we may cancel a lender’s available commitments with respect to a facility, in whole or in part. The minimum amount we may cancel is Won 25 billion or the equivalent amount.

Voluntary Prepayments. Subject to some conditions, we are permitted to prepay all or a part of the loans and the amount prepaid is applied pro rata towards prepayment of the loans in the following order:

- First, towards prepayment of outstanding amounts under the Facility B1 Loan and Facility B2 Loan on a pro rata basis according to their respective outstanding amounts,
- Second, towards prepayment of outstanding amounts under the Facility A Loan, and
- Finally, towards prepayment of outstanding amounts under the Facility C Loan.

The minimum amount we may prepay is Won 25 billion or the equivalent amount.

Interest and Expenses. Borrowings under each loan will bear interest at the rate which is the aggregate of the applicable base rate and the applicable margin. The interest period starts on the date on which the loan is made or on the last day of its precedent interest period, and ends on the next following quarterly date in the case of the Facility A loan or Facility B2 Loan or annual date in the case of the Facility B1 Loan. The interest period for a loan under Facility C Loan starts on the date on which the loan is made and ends on the next following quarterly date. The agreement also provides for certain conditions, including a market disruption event, under which the calculation of interest may change. The following table summarizes the applicable interest rates for each loan:

	Base Rate	Margin ⁽¹⁾
Facility A Loan	3-month LIBOR	1.850%
Facility B1 Loan	3-year A+-rated corporate bond base rate	2.050%

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	Base Rate	Margin ⁽¹⁾
Facility B2 Loan	3-month LIBOR	2.050%
Facility C Loan	91-day CD base rate	2.075%

(1) The margins may be adjusted by up to 0.75 percentage points if our credit rating is upgraded.

Ranking. Our payment obligations under the secured credit facility agreement rank equally with the claims of all of our other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law. We have granted a security interest with respect to a significant portion of our property to the lenders under the secured credit facility agreement.

Events of Default. Events of default under the agreement include, among other things: (1) default in payment; (2) breach of certain covenants and other obligations under the agreement; (3) misrepresentation; and (4) insolvency. In the event of default, all commitments are immediately cancelled and all loans, together with accrued interest and other outstanding amounts, are immediately due and payable.

Covenants. The agreement contains various affirmative, negative and financial covenants. Limitations upon us under the agreement relate to, among other things: (1) aggregate capital expenditure; (2) corporate status; (3) hedging arrangements; (4) subsidiary guarantees; (5) disposal of assets; (6) liens and lease transactions; (7) corporate restructuring; (8) acquisitions; (9) loans and guarantees; and (10) dividends and distributions.

TV-Portal and IP-TV Business Cooperation Agreement among hanarotelecom, Celrun Co., Ltd. and CelrunTV

On February 6, 2006, we signed a Memorandum of Understanding with Celrun Co., Ltd., CelrunTV (whose corporate name was changed to hanaromedia Inc. and became our affiliated company on May 2, 2006) and Young-Min Kim, who is Representative Director and shareholder of CelrunTV, regarding the transfer of a portion of the common shares of CelrunTV and the future issuance of new shares of CelrunTV. We also signed a business cooperation agreement. Pursuant to the agreements, we initially acquired 780,000 registered common shares of CelrunTV, representing 65% of its total outstanding shares (par value of Won 5,000 per share), for Won 5.5 billion.

Following our initial acquisition, CelrunTV carried out a capital increase amounting to Won 20 billion through a new share issue at the end of March 2006. The Memorandum of Understanding provides that we will acquire 65% of such newly issued shares at Won 13 billion, Won 6.5 billion of which was acquired at the end of March 2006, and the other Won 6.5 billion of which will be acquired by the end of June 2006.

Provision of services. We will provide our broadband Internet subscribers with TV-Portal service, Internet-based TV video-on-demand, or VOD, service and Internet-based IP-TV service. Revenues accrued from the provision of these services will be recognized as our revenues. For broadband subscribers of other Internet service providers and B2B subscribers, CelrunTV will provide the services, and the relevant revenues will be recognized as revenues of CelrunTV.

Exclusive use and provision of services. We have agreed to obtain the services only through CelrunTV for five years from the date of the agreement unless Celrun Co., Ltd.'s stake in CelrunTV becomes less than 10%. Celrun Co., Ltd. will be the exclusive supplier of set-top boxes for two years if it can supply them at the lowest unit price compared to other suppliers and will not discontinue supplying set-top boxes or after-sale services as long as we or CelrunTV provide the services.

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D. Exchange Controls

General

The Korean Foreign Exchange Transaction Law and the Presidential Decree and regulations under such Act and Decree (collectively, the “Foreign Exchange Transaction Laws”) regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws, non-residents may invest in Korean securities only to the extent specifically allowed by such laws or otherwise permitted by the MOFE. The FSC has also adopted, pursuant to its authority under the Korean Securities and Exchange Act, regulations that restrict investment by foreigners in Korean securities.

Under the Foreign Exchange Transaction Laws, if the government deems that certain emergency circumstances, including, but not limited to, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions, such as requiring foreign investors to obtain prior approval from the MOFE for the acquisition of Korean securities or for the repatriation of dividends or sales proceeds arising from Korean securities or from disposition of such securities.

Reporting Requirements for Holders of Substantial Interests

Any person whose direct or beneficial ownership of shares (whether in the form of shares or ADSs), certificates representing the right to subscribe for shares and certain equity-related debt securities, such as convertible bonds and bonds with warrants (collectively, the “Equity Securities”), together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with such person that account for 5% or more of the total outstanding Equity Securities, is required to report the status and purpose (in terms of whether the purpose of shareholding is to affect control over management of the issuer) of such holding to the FSC and the KRX within five business days after reaching the 5% ownership interest threshold. In addition, any change (1) in the ownership interest subsequent to such report which equals or exceeds 1% of the total outstanding Equity Securities, or (2) in the shareholding purpose, is required to be reported to the FSC and the KRX within five business days from the date of such change. However, the reporting deadline of such reporting requirement is extended for institutional investors who hold shares for purposes other than management control to the tenth day of the month immediately following the month in which the shares were acquired or the shareholdings were otherwise changed. Those who report that the purpose of their shareholding is to affect control over management of the issuer are prohibited from exercising their voting rights and acquiring additional shares for five days subsequent to the report under the recently amended Korean Securities and Exchange Act.

Violation of these reporting requirements may subject a person to criminal sanctions, such as fines or imprisonment, and may result in a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Furthermore, the FSC may issue an order to dispose of such non-reported Equity Securities.

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares underlying ADSs and the delivery inside Korea of shares in connection with such withdrawal, provided that a foreigner who intends to acquire such shares must obtain an Investment Registration Card from the Financial Supervisory Service as described below. The acquisition of such shares by a foreigner must be reported immediately by the foreigner or his standing proxy in Korea to the Governor of the Financial Supervisory Service (the “Governor”).

Persons who have acquired shares as a result of the withdrawal of shares underlying the ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

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Restrictions Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction Laws and FSC regulations (together, the “Investment Rules”) adopted in connection with the stock market opening from January 1992 and after that date, foreigners may invest, with certain exceptions and subject to certain procedural requirements, in all shares of Korean companies, whether listed on the KRX Stock Market or the KRX KOSDAQ Market, unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX Stock Market or the KRX KOSDAQ Market only through the KRX Stock Market or the KRX KOSDAQ Market, except in limited circumstances, including:

- odd-lot trading of shares;
- acquisition of shares by exercise of warrant, conversion right under equity-linked securities or withdrawal right under depositary receipts issued outside of Korea by a Korean company (“Converted Shares”);
- acquisition of shares by foreign companies as a result of merger;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders’ rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- acquisition of shares offered and subscribed overseas for listing on foreign securities exchanges;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded;
- acquisition of underlying shares by an overseas depositary in relation to the issuance of depositary receipts;
- disposition of shares through the exercise of dissenting shareholder’s appraisal right;
- acquisition of shares by direct investment pursuant to the Foreign Investment Promotion Act and disposition of shares so acquired;
- acquisition or disposition of shares through a tender offer; and
- acquisition or disposition of shares through the electronic over-the-counter market brokerage companies.

For over-the-counter transactions of shares between foreigners outside the KRX Stock Market or the KRX KOSDAQ Market for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX Stock Market or the KRX KOSDAQ Market must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions by using securities borrowed from securities companies in Korea with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the KRX Stock Market or the KRX KOSDAQ Market (including Converted Shares) to register its identity with the FSS prior to making any such investment; however, such registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition thereof. Upon registration, the FSS will issue to the foreign investor an Investment Registration Card which must be presented each time the foreign investor opens a brokerage

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account with a securities company. Foreigners eligible to obtain an Investment Registration Card include foreign nationals who are individuals residing abroad for more than six months, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the MOFE. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea. However, a foreign corporation or depository issuing depository receipts may obtain one or more Investment Registration Cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the KRX Stock Market or the KRX KOSDAQ Market, no separate report by the investor is required because the Investment Registration Card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the KRX Stock Market (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale by it of shares outside the KRX Stock Market or the KRX KOSDAQ Market, in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor by the securities company engaged to facilitate such transaction. A foreign investor must appoint one or more standing proxies from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), asset management companies, internationally recognized foreign custodians, the entity licensed to be engaged in futures transaction business under Korean Futures Transaction Law, and securities companies (including domestic branches of foreign securities companies) which have obtained a license to act as a standing proxy to exercise shareholders' right, place an order to sell or purchase shares or perform any matter related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor in cases deemed inevitable by reason of conflict between laws of Korea and the home country of such foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), asset management companies, entities licensed to be engaged in futures transaction business under Korean Futures Transaction Law, internationally recognized foreign custodians and the Korea Securities Depository are eligible to act as a custodian of shares for a nonresident or foreign investor. A foreign investor must ensure that his custodian deposits such shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor in circumstances where such compliance is made impracticable, including cases where such compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Furthermore, an investment by a foreign investor of not less than 10% of the outstanding shares of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Ministry of Commerce, Industry and Energy which delegates its authority to Korea Trade-Investment Promotion Agency, or foreign exchange banks (including domestic branches of foreign banks) under the relevant regulations. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign shareholding restrictions in the event that such restrictions are prescribed in each specific law which regulates the business of such Korean company. For example, we are currently subject to a foreign shareholding ceiling of 49% pursuant to the Telecommunications Business Law. A foreigner who has acquired shares in excess of such ceiling may not exercise his voting rights with respect to the shares exceeding such limit, and the MIC may take corrective action pursuant to the Telecommunications Business Law.

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Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any such shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any such shares held by a nonresident of Korea must be deposited either in a Won account with the investor's securities company or his Won account. Funds in the investor's Won account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive right.

Securities companies (including domestic branches of foreign securities companies) in Korea are allowed to open foreign currency accounts and Won accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through such accounts, these securities companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without such investors having to open their own accounts with foreign exchange banks.

E. Taxation

Korean Tax Considerations

The following is a summary of the principal Korean tax consequences to owners of our shares that are non-resident individuals or non-Korean corporations without a permanent establishment in Korea to which the relevant income is attributable ("non-resident holders"). The statements regarding Korean tax laws set forth below are based on the laws in force and as interpreted by the Korean taxation authorities as of the date hereof. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor, and prospective investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of our shares, including specifically the tax consequences under Korean law, the laws of the jurisdiction of which they are resident, and any tax treaty between Korea and their country of residence, by consulting their own tax advisors.

Dividends on the Shares or ADSs

We will deduct Korean withholding tax from dividends paid to you at a rate of 27.5%. If you are a resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. For example, if you are a qualified resident of the United States for purposes of the tax treaty between the United States and Korea and you are the "beneficial owner" of a dividend, a reduced withholding tax rate of 11% or 16.5%, including local surtax, generally will apply. If you are a beneficial owner of ADSs, you will generally be entitled to benefits under the tax treaty between the United States and Korea if you:

- are an individual U.S. resident, a U.S. corporation or a partnership or trust to the extent your income is subject to taxation in the United States as the income of a U.S. resident;
- are not also a resident of Korea for purposes of the tax treaty between the United States and Korea;
- are not subject to any anti-treaty shopping article that applies in limited circumstances; and

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- do not hold ADSs in connection with the conduct of business in Korea through a permanent establishment or the performance of independent personal services in Korea through a fixed base.

In order to obtain the benefits of a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as may be required by the Korean tax authorities. Evidence of tax residence may be submitted to us through the Korea Securities Depository. Excess taxes withheld generally are not recoverable even if you subsequently produce evidence that you were entitled to have tax withheld at a lower rate.

If we distribute to you free shares representing transfer of certain capital reserves or asset revaluation reserves into paid-in capital, that distribution may be regarded as dividend and, as such, subject to Korean withholding tax.

Taxation of Capital Gains

You are exempt from Korean taxation if you sell through the KRX Stock Market or the KRX KOSDAQ Market less than 25% of our total issued and outstanding shares that you have owned, together with certain related parties at any time during the year of sale and the five calendar years before the year of sale, provided that you are either an individual or you are a corporate entity with no permanent establishment in Korea (if you are an individual it is irrelevant whether or not such capital gains are attributable to the permanent establishment). If you are a resident of the United States for purposes of the tax treaty between the United States and Korea, you will be exempt from Korean taxation on the capital gains realized by the disposition of ADSs. Further, the Korean taxation authorities have issued a tax ruling confirming that capital gains earned by a non-Korean holder (whether or not it has a permanent establishment in Korea) from the transfer of ADSs outside of Korea are exempt from Korean taxation by virtue of the Tax Exemption Limitation Law.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares which you acquired as a result of a withdrawal, your gain will be calculated based on your cost of acquiring the ADSs representing such shares, although there are no specific Korean tax provisions or rulings on this issue. In the absence of the application of a tax treaty which exempts or reduces the rate of tax on capital gains, the amount of Korean tax imposed on your capital gains will be the lesser of 11% of the gross realization proceeds and, subject to the production of satisfactory evidence of the acquisition and transfer costs of the ADSs, 27.5% of the net capital gains. The gain is calculated as the gross realization proceeds less the acquisition cost and transfer expenses.

If you sell your shares or ADSs, the purchaser or, in the case of the sale of shares on the KRX Stock Market or through a licensed securities company in Korea, the licensed securities company is required to withhold Korean tax from the sales price in an amount equal to 11% of the gross realization proceeds and to make payment thereof to the Korean tax authority, unless you establish your entitlement to an exemption or lower rate of taxation under an applicable tax treaty or produce satisfactory evidence of its acquisition and transfer costs for the ADSs. In order to obtain the benefit of an exemption or reduced rate of tax pursuant to a tax treaty, you must submit to the purchaser or the securities company (or through the Korea Securities Depository), as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of its claim for treaty protection. Furthermore, in order for you to obtain the benefit of a tax exemption on certain Korean source income (e.g., capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit the application for tax exemption along with a certificate of your tax residency issued by a competent authority of your country of tax residence, subject to certain exceptions. Such application should be submitted to the relevant district tax office by the ninth day of the month following the date of the first payment of such income. However, excess taxes withheld are generally not recoverable even if you subsequently produce evidence that you were entitled to have taxes withheld at a lower rate.

Because the Korean taxation authorities have issued a tax ruling that the trading of the ADSs on the NASDAQ National Market will be regarded as the transfer of the ADSs outside Korea under the Tax

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Exemption Limitation Law, it is likely that a non-Korean seller of the ADSs on the NASDAQ National Market will not be required to make any withholdings as described.

Inheritance Tax and Gift Tax

If you die while holding an ADS or transfer an ADS as a gift, it is unclear whether you will be treated as the owner of the shares underlying the ADSs for Korean inheritance and gift tax purposes. If you are treated as the owner of the shares, the heir or the donee (or you, if the donee fails to pay) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50%, provided that the value of such ADSs or shares is greater than a specified amount.

Securities Transaction Tax

You will not pay a securities transaction tax on your transfer of ADSs. If you transfer shares, you will be subject to a securities transaction tax at the rate of 0.15% and an agriculture and fishery special tax at the rate of 0.15% of the sale price of the share when traded on the KRX Stock Market. If you transfer shares through the KRX KOSDAQ Market, you will be subject to a securities transaction tax at the rate of 0.3% of the sales price of the shares. If your transfer of shares is not made on the KRX Stock Market or the KRX KOSDAQ Market, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special tax.

According to a tax ruling issued by the Korean tax authorities, foreign shareholders will not be subject to a securities transaction tax upon the deposit of underlying shares and receipt of depositary shares or upon the surrender of depositary shares and withdrawal of originally deposited underlying shares. Moreover, to date, the imposition of securities transaction tax has not been enforced on the transfers of ADSs. However, the MOFE recently issued a ruling on February 25, 2004 to the Korean National Tax Service, holding that depositary shares fall under the meaning of share certificates that are subject to the securities transaction tax. In the ruling, the Ministry of Finance and Economy treats the transfers of depositary shares the same as the transfer of the underlying Korean shares. Under Korean tax laws, transfers of depositary shares listed or registered on the New York Stock Exchange, NASDAQ National Market, or other foreign exchanges designated by the Ministry of Finance and Economy (which are the Tokyo Stock Exchange, London Stock Exchange, German Stock Exchange, and a stock exchange with functions similar to the other three exchanges, on which trading is done by standardized procedure as set forth in the Enforcement Regulation of the Korean Securities and Exchange Act) will be exempted from the securities transaction tax.

Securities transaction tax, if applicable, must be paid in principle by the transferor of the shares or the rights to subscribe to such shares. When the transfer is effected through a securities settlement company, the settlement company is generally required to withhold and pay the tax to the tax authority. When the transfer is made through a securities company, the securities company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a securities company, the transferee is required to withhold the securities transaction tax.

The failure to pay the securities transaction tax will result in a penalty of 10% of the tax amount due, plus interest at 10.95% per annum on the unpaid tax amount for the period from the day immediately following the last day of tax payment period to the day of issuance of tax notice. The penalty is imposed on the party responsible for paying the securities transaction tax or, if the securities transaction tax is to be withheld, the penalty is imposed on the party that has the withholding obligation.

U.S. Federal Income Tax Considerations

The following discussion describes the material U.S. federal income tax considerations that may be relevant to a holder of our common shares or ADSs that is a U.S. Holder (as defined below) with respect to the receipt of distributions on, and the disposition of, common shares or ADSs. This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed Treasury

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regulations, revenue rulings, administrative interpretations and judicial decisions (all as of the date hereof and all of which are subject to change, possibly with retroactive effect, and different interpretations). Except as specifically set forth herein, this discussion deals only with common shares and ADSs held by a U.S. Holder as capital assets within the meaning of Section 1221 of the Code. This discussion does not address all of the tax consequences that may be relevant to prospective purchasers of common shares or ADSs in light of their particular circumstances or to persons subject to special tax rules, such as insurance companies, banks, financial institutions, regulated investment companies, real estate investment trusts, dealers in securities or foreign currencies, traders that elect to use a mark-to-market method of accounting for their securities holdings, tax-exempt investors, persons holding common shares or ADSs as a position in a “straddle,” as a part of a short-sale, or as part of a hedging, conversion or other integrated transaction, persons owning, directly, indirectly or constructively, 10% or more of the voting stock of hanarotelecom or persons whose functional currency (as defined in Section 985 of the Code) is not the U.S. dollar. U.S. Holders should consult with their own tax advisors regarding the application of the U.S. federal income tax laws to their particular situations as well as to any additional tax consequences of purchasing, holding or disposing of common shares or ADSs, including the applicability and effect of the tax laws of any state, local or foreign jurisdiction.

As used in this section, the term “U.S. Holder” means a beneficial owner of a common share or ADS who or that is for U.S. federal income tax purposes (1) a citizen or individual resident of the United States, (2) a corporation or other entity treated as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the United States or of any state or political subdivision thereof, (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (4) a trust if (A) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership or other pass-through entity holds common shares or ADSs, the tax treatment of a partner in or owner of the partnership or pass-through entity will generally depend upon the status of the partner or owner and the activities of the entity. We urge partners and owners of partnerships or other pass-through entities holding common shares or ADSs to consult their own tax advisors.

Special adverse U.S. federal income tax rules apply if a U.S. Holder holds common shares or ADSs of a company that is treated as a “passive foreign investment company,” a “foreign personal holding company” (for 2004 and earlier years) or a “controlled foreign corporation” for any taxable year during which the U.S. Holder held common shares or ADSs. We believe that we are not and will not become a “passive foreign investment company,” a “foreign personal holding company” (for 2004 and earlier years) or a “controlled foreign corporation” for U.S. federal income tax purposes.

In general, for U.S. federal income tax purposes, U.S. Holders of ADRs evidencing ADSs will be treated as the owners of the common shares represented by the ADSs.

Cash Distributions

To the extent that a distribution on common shares or ADSs is paid to a U.S. Holder out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), such distribution will be includible in the U.S. Holder’s gross income as foreign source dividend income in an amount equal to the U.S. dollar value of such distribution (without reduction for any applicable foreign withholding tax). A corporate U.S. Holder will not be entitled to a dividends received deduction with respect to distributions on common shares or ADSs by hanarotelecom.

Therefore, in the event that any Korean tax is withheld from a distribution on common shares or ADSs, a U.S. Holder generally will be required to report gross income in an amount greater than the cash received. However, subject to certain conditions and limitations (including certain minimum holding period requirements), the U.S. dollar value of the Korean income taxes, if any, withheld from a distribution to a U.S. Holder on the common shares or ADSs may be claimed as a credit against the U.S. Holder’s U.S. federal income tax liability. Alternatively, a U.S. Holder may claim a deduction for such amount of

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Korean income taxes withheld in a taxable year, but only if such U.S. Holder does not elect to claim a foreign tax credit in respect of any foreign taxes paid by it in the taxable year. Dividends on common shares or ADSs generally will constitute “passive income” or, in the case of certain U.S. Holders, “financial services income” for U.S. foreign tax credit purposes for taxable years beginning before January 1, 2007. For taxable years beginning after December 31, 2006, dividends generally will be “passive category income” or “general category income” for purposes of computing the foreign tax credit allowable to a U.S. Holder. Special rules apply to certain individuals whose foreign source income during the taxable year consists entirely of “qualified passive income” and whose creditable foreign taxes paid or accrued during the taxable year do not exceed \$300 (\$600 in the case of a joint return).

To the extent that the amount of any distribution on the common shares or ADSs exceeds the current and accumulated earnings and profits of hanarotelecom (as determined for U.S. federal income tax purposes), a U.S. Holder’s pro rata share of such excess amount would be treated first as a nontaxable return of capital that would be applied against and would reduce the U.S. Holder’s tax basis in its common shares or ADSs (but not below zero), and then as capital gain. Distributions in excess of our current and accumulated earnings and profits (as determined for U.S. federal income tax purposes) generally will not give rise to foreign source income and a U.S. Holder may be unable to claim a foreign tax credit in respect of any foreign withholding tax imposed on such distributions unless (subject to applicable limitations) the U.S. Holder has other foreign source income in the appropriate category for foreign tax credit purposes.

The rules relating to foreign tax credits are extremely complex and the availability of a foreign tax credit depends on numerous factors. Prospective purchasers of common shares or ADSs should consult their own tax advisors concerning the application of the U.S. foreign tax credit rules to their particular situations.

For taxable years that begin before 2011, dividends paid by hanarotelecom should be taxable to a non-corporate U.S. Holder at the special reduced rate normally applicable to capital gains, provided hanarotelecom qualifies as a Qualified Foreign Corporation, or QFC. A company may qualify as a QFC if it is eligible for benefits of a comprehensive income tax treaty with the United States which the Secretary of the Treasury has determined is satisfactory for QFC treatment and which includes a provision for the exchange of information. Korea has a comprehensive income tax treaty with the United States which satisfies the two requirements above. The reduced rate should apply if the distribution is made with respect to equity rather than indebtedness and is made out of earnings and profits. Dividends paid by a foreign corporation will not qualify for the reduced rates, however, if that corporation is treated, for the tax year in which the dividend is paid or the preceding tax year, as a passive foreign investment company for U.S. federal income tax purposes. A U.S. Holder will be eligible for the reduced rate only if it has held the common shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and satisfies certain other requirements. All U.S. Holders are urged to consult their own tax advisers regarding the special reduced rates for dividends paid by QFCs.

The U.S. dollar value of any distribution to a U.S. Holder on common shares or ADSs that is paid in a foreign currency will be calculated by reference to the exchange rate in effect at the time the distribution is received by the U.S. Holder (or a depositary nominee, custodian or other agent of the U.S. Holder). A U.S. Holder generally should not recognize any foreign currency gain or loss if such foreign currency is converted into U.S. dollars on the day received. If a U.S. Holder does not convert such foreign currency into U.S. dollars on the date of receipt, however, such Holder will have a basis in such foreign currency equal to the U.S. dollar value on the date of receipt, and such Holder may recognize United States source foreign currency gain or loss (which generally will be taxable as United States source ordinary income or loss) upon a subsequent sale or other disposition of the foreign currency.

Sale of Common Shares and ADSs

A U.S. Holder generally will recognize gain or loss upon a sale or other disposition of common shares or ADSs in an amount equal to the difference between the U.S. dollar value of the amount realized on the sale or other disposition and the U.S. Holder’s adjusted tax basis in the common shares or ADSs. Such gain or loss generally will be capital gain or loss and, in the case of certain non-corporate U.S.

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Holders, may be subject to U.S. federal income tax at a preferential rate where the U.S. Holder's holding period exceeds one year. Any gain or loss recognized by a U.S. Holder on a sale or other disposition of common shares or ADSs generally will be treated as United States source gain or loss for foreign tax credit purposes. A U.S. Holder's ability to deduct capital losses in respect of common shares and ADSs is subject to limitations.

Securities Tax

Holders should note that any Korean securities transaction tax will not be treated as a creditable foreign tax for U.S. federal income tax purposes, although U.S. Holders may be entitled to deduct such taxes, subject to applicable limitations under the Code.

Backup Withholding

"Backup" withholding and information reporting requirements may apply to payments made within the United States of dividends on common shares or ADSs and to certain payments of proceeds of a sale or redemption of a common share or ADS paid to a U.S. Holder. hanarotelecom, our agent, a broker, the Trustee or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding at a current rate of 28% (subject to reduction in future years) of such payment if the U.S. Holder fails to furnish the U.S. Holder's taxpayer identification number, to certify that such U.S. Holder is not subject to backup withholding, or to otherwise comply with the applicable requirements of the backup withholding rules. If a U.S. Holder is required to and does not provide a correct taxpayer identification number, the U.S. Holder may be subject to penalties imposed by the IRS. Certain U.S. Holders (including, among others, corporations) are not subject to the backup withholding and information reporting requirements. Any amounts withheld under the backup withholding rules from a payment to a U.S. Holder generally may be claimed as a credit against such U.S. Holder's U.S. federal income tax liability or refundable to the extent it exceeds such liability, provided that the required information is furnished to the U.S. Internal Revenue Service.

Estate and Gift Tax

As discussed in "—Korean Tax Considerations—Inheritance Tax and Gift Tax," Korea may impose an estate tax on a decedent who owns our common shares (and possibly ADSs), even if the decedent is a non-resident. Subject to certain conditions and limitations, the amount of any inheritance tax paid to Korea may be eligible for credit against the amount of U.S. federal estate tax imposed on the estate of a U.S. Holder. The Korean gift tax generally will not be treated as a creditable foreign tax for U.S. tax purposes. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We file periodic reports and other information with the SEC. You may read and copy any document that we file with the SEC at the SEC's public reference room at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional offices. Please call the SEC at 1-800-732-0330 for further information on the operation of its public reference rooms. The SEC also maintains a web site that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the SEC (<http://www.sec.gov>). You may also inspect our

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SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. Some of this information may also be found on our website at <http://www.hanaro.com>.

You may request a copy of these filings, at no cost, by writing or telephoning us at Asia One Building, 17-7 Yeoido-dong, Yeongdeungpo-gu, Seoul, Korea, 150-874, Attention: Investor Relations Team, telephone number: (+82-2) 6266-4629.

I. Subsidiary Information.

Please refer to discussion under “Item 4.C. Organizational Structure.”

Item 11. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to the impact of interest rate changes, foreign currency fluctuations and changes in the estimated fair values of our investments.

Interest Rate Risk

Our exposure to risk for changes in interest rates relates primarily to our short-term investments and our syndicated loan which has a floating interest rate.

Investments in both fixed rate and floating rate interest earning investments carry some interest rate risk. The fair value of fixed rate securities may fall due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Partly as a result of this, our future interest income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities, which have fallen in estimated fair value due to changes in interest rates.

Our cash and cash equivalents consist of cash on hand, passbook accounts and money market deposit accounts. We do not expect any material loss with respect to our cash and cash equivalents as a result of interest rate changes, and the estimated fair value of our cash and cash equivalents approximates original cost.

Our short-term financial instruments consist of time deposits, money market deposit accounts and repurchase agreement securities. As our short-term financial instruments are readily convertible to known amounts of cash and have short maturities, we do not expect material loss with respect to our short-term financial instruments as a result of interest rate changes.

The risk of exposure to variable interest rates has been hedged by entering into swap contracts with Korea Development Bank and other banks under which we receive variable interest rates and pay fixed interest rates. Therefore, we do not expect any material loss with respect to our syndicated loan as a result of interest rate changes.

Foreign Currency Risk

Most of our expenses and all of our revenues are incurred in Korean Won, which is our functional currency. As of December 31, 2005, Won 705.0 billion, representing 72.3% of our total debt, is denominated in U.S. dollars. Of the Won 705.0 billion of our U.S. dollar denominated debt, Won 502.3 billion relates to February 2005 Notes and Won 202.7 billion relates to borrowings under the Senior Secured Credit Facility. We have entered into foreign currency swap contracts with respect to all our U.S. dollar denominated debt.

Currently, we have no other significant foreign currency denominated liabilities. Because substantially all of our revenues are denominated in Won, any significant changes in exchange rates

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between the Won and the U.S. dollar will affect us due to the effect of such changes on the amount of funds required by us to make interest and principal payments on our U.S. dollar denominated debt. In December 2003 and February 2004 and on February 1, 2005, we entered into foreign currency swap contracts with Development Bank of Singapore, Korea Development Bank and other banks in connection with the Senior Secured Credit Facility and the February 2005 Notes to hedge the exposure to changes in the foreign currency exchange rate. As a result, we do not expect to incur any material losses with respect to the Senior Secured Credit Facility or the February 2005 Notes as a result of foreign exchange rate changes.

We estimate that any losses we would incur from any depreciation of the Won against the U.S. dollar resulting from unhedged U.S. dollar denominated liabilities would be negligible. This is due to our policy that all foreign currency denominated liabilities be fully hedged.

Third Party Credit Risk

It is our policy to limit the amount of our credit exposure to any one issuer. We are averse to principal loss and seek to preserve our invested funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing only in high credit quality securities that we believe to be low risk and by positioning our portfolio to respond appropriately to a significant reduction in the credit rating of any investment issuer or guarantor. In addition, it is our policy that all foreign exchange investments be fully hedged. Substantially all of our floating rate debt is hedged.

Item 12. Description of Securities Other Than Equity Securities.

Not applicable.

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications of the Rights of Security Holders and Use of Proceeds.

None.

Item 15. Controls and Procedures.

Mr. Byung Moo Park, our Chief Executive Officer and Representative Director, and Ms. Janice Lee, our Chief Financial Officer and Senior Executive Vice President, after evaluating the effectiveness of our disclosure controls and procedures (as defined in the United States Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Form 20-F, have concluded that, as of such date, these controls and procedures were effective.

There have been no changes in internal control over financial reporting during the fiscal year ended December 31, 2005, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. During this period, however, we changed the accounting treatment of certain lease and commission expenses, which were previously recorded on an invoice basis, to an accrual basis. The financial results reported in this Form 20-F for prior periods have been restated to reflect such accounting treatment correction.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

Our Audit Committee consists of three outside directors: Sung Kyou Park, Sun Woo Kim and Peter Whang. Mr. Byung Moo Park resigned from our audit committee and was appointed as our Representative Director at our annual shareholders' meeting held on March 24, 2006. Peter Whang was appointed as a member of our audit committee at the annual shareholders' meeting held on March 24, 2006. All of the Audit Committee members comply with the requirements under applicable Korean law and stock exchange rules. In addition, Sung Kyou Park and Sun Woo Kim are independent directors as defined in Rule 4200(15) of the NASDAQ Marketplace Rules.

Our board of directors has determined that Mr. Sung Kyou Park is an "audit committee financial expert" as defined in Item 16A of Form 20-F, in light of his extensive experience with management responsibilities for over 10 years, and in particular, his experience in actively supervising principal financial officers, controllers, accounting officer or persons performing similar functions in preparing, auditing, analyzing and evaluating financial statements of companies. See "Item 6. Directors, Senior Management and Employees" for more information on Mr. Park's educational background, qualifications and work experience.

Item 16B. Code of Ethics

In April 2003, we adopted a written code of ethics for our directors, officers and employees. The original Korean version of our code of ethics is available on our website at www.hanaro.com. There has been no amendment to our code of ethics since its inception except the change of our corporate name from "Hanaro Telecom Inc." to "hanarotelecom incorporated" effective from March 30, 2005.

Item 16C. Principal Accountant Fees and Services

Deloitte HanaAnjin LLC (formerly known as Anjin Deloitte LLC), a member firm of Deloitte Touche Tohmatsu, has served as our independent accountants for each of the fiscal years in the three-year

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period ended December 31, 2005. The following table presents the aggregate fees for professional services and other services rendered by Deloitte HanaAnjin LLC to us in 2004 and 2005:

	2004	2005
	(millions of Won)	
(a) Audit Fees ⁽¹⁾	Won 370	Won 410
(b) Audit-Related Fees ⁽²⁾	85	40
(c) Tax Fees ⁽³⁾	—	—
(d) All Other Fees ⁽⁴⁾	—	50

- (1) Audit Fees consist of aggregate fees billed by Deloitte HanaAnjin LLC in connection with the audit of our annual financial statements and the review of our interim financial statements.
- (2) Audit-related Fees consist of aggregate fees billed by Deloitte HanaAnjin LLC for advisory services relating to analyses of multiple accounting issues .
- (3) Tax Fees consist of aggregate fees billed by Deloitte HanaAnjin LLC for the preparation of income tax return and tax advisory services (of which there were none for 2004 and 2005).
- (4) All Other Fees include fees billed by Deloitte HanaAnjin LLC principally for due diligence services relating to our call center and accounting assistance (of which there were none for 2004).

Our Audit Committee reviews and pre-approves the scope and the cost of all audit and permissible non-audit services performed by the independent accountants, other than those for de minimus services which are approved by the Audit Committee prior to the completion of the audit.

Item 16D. Exemptions from the Listing Standards for Audit Committees

As a foreign private issuer, we are exempt from some corporate governance-related obligations required by NASDAQ with respect to audit committees. NASDAQ Rule 4350(d) requires issuers to adopt a formal written audit committee charter that includes certain specified provisions. Rule 4350(d) further requires issuers to have an audit committee with at least three independent directors. We follow Korean practices in lieu of certain NASDAQ requirements as set forth below:

NASDAQ Rule 4350(d)(1) requires that issuers adopt a formal written audit committee charter and that the audit committee review and reassess the adequacy of the formal written charter on an annual basis. Korean law does not require a company's audit committee to adopt a written charter. Furthermore, a formal written audit committee charter, if adopted by a Korean company, would become null and void if it were to violate any Korean law or the articles of incorporation of the company. Our board of directors has adopted the Audit Committee Regulations, or ACR, pursuant to our Articles of Incorporation, but the ACR does not obligate our Audit Committee to review and reassess the adequacy of the ACR on an annual basis. Our ACR, in our view, is not in violation of applicable Korean laws or our Articles of Incorporation.

NASDAQ Rule 4350(d)(1) sets forth certain responsibilities of an audit committee in relation to outside auditors that must be specified in the formal written charter of an issuer's audit committee. Under Korean law, an audit committee has the statutory duty to examine the company's financial statements and the business reports, and based on such examination, to report its opinion to shareholders at the annual general meetings of shareholders. The audit committee also has the statutory duty to oversee the administration of the company's affairs by the board of directors. Consistent with Korean law, our ACR provides that the appointment of outside auditors is subject to approval by the Audit Committee. Korean law does not impose specific responsibilities on an audit committee in relation to outside auditors in the way that the NASDAQ Rule does, and our ACR has not imposed any such responsibilities.

Furthermore, NASDAQ Rule 4350 requires independent directors to serve various roles in the Company's corporate governance practices, and Rule 4200(15) defines the requirements for an "independent director." With respect to independent directors, we follow Korean practices in lieu of certain NASDAQ requirements as set forth below:

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NASDAQ Rule 4350(c)(1) requires a majority of a company's board of directors to be independent directors. Under the Korean Commercial Code, or KCC, the Korean Securities and Exchange Act, or KSEA, and related legislation, there is no legal concept which is the same as an independent director within the meaning given by the NASDAQ Marketplace Rules. The KSEA does, however, set forth requirements for outside directors. Under the KSEA, an outside director is defined as a director who does not engage in the day-to-day business operations of the company and who is appointed pursuant to the Section 191-16 of the KSEA. Under the KSEA, individuals with special relationships with a listed company which may interfere with the exercise of independent judgment, are excluded from becoming outside directors of such company. The KSEA further requires that at least one-quarter of the total number of directors of a company listed on the KRX Stock Market or the KRX KOSDAQ Market be outside directors. Moreover, a company, such as ours, with total assets of KRW 2 trillion or more as of the end of the most recent financial year must have outside directors making up more than one-half of the total number of directors. Consistent with this statutory requirement, our Articles of Incorporation require that more than half of the total number of directors be outside directors and that an outside director satisfy the eligibility standards under the KSEA or any other applicable statute. Six out of our ten directors were outside directors as of May 31, 2006.

NASDAQ Rule 4350(c)(2) requires regularly scheduled meetings of independent directors at which only independent directors are present. The KCC, KSEA or other corporate governance-related Korean statutes do not require regular meetings attended solely by outside directors. Our outside directors do not conduct regularly scheduled meetings at which only outside directors are present. The failure to hold such meetings does not violate applicable Korean laws or regulations relating to corporate governance.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There have been no purchases made by or on behalf of us or any affiliated purchaser of our shares or ADSs.

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PART III

Item 17. Financial Statements.

We have elected to provide the financial statements and related information specified in Item 18 in lieu of 17.

Item 18. Financial Statements.

See pages starting on F-1 following Glossary.

Item 19. Exhibits.

The following documents are filed as exhibits to this Annual Report:

<u>Exhibits</u>	<u>Description</u>
1.1.	Articles of Incorporation, as amended on March 24, 2006 (English translation)
4.1.	Memorandum of Understanding between Celrun Inc. and Kim Young-min, hanarotelecom Inc. and CelrunTV Inc., dated February 6, 2006 (English translation)
4.2.	Business Cooperation Agreement among hanarotelecom, inc., Celrun Co., Ltd. and CelrunTV, dated March 6, 2006 (English translation)
8.1.	List of hanarotelecom's significant subsidiaries. (See "Item 4.C. Organizational Structure.")
11.1.	Code of Ethics (English translation)
12.1.	Section 302 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)
12.2.	Section 302 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)
13.1.	Section 906 Certifications required by Rule 13a-14(b) and 18 U.S.C. Section 1350

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Signature

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

hanarotelecom incorporated

By: /s/ Janice Lee

Name: Janice Lee

Title: Senior Executive Vice President
and Chief Financial Officer

Date: June 29, 2006

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Glossary

Set forth below are definitions of some of the terms used in this Offering Circular:

ADSL	Asymmetric Digital Subscriber Line. ADSL is a technology that allows more data to be sent over existing copper telephone lines. ADSL supports data rates of 1.5 to 9.0 Mbps when receiving data (known as the downstream rate), and 16 to 640 Kbps when sending data (known as the upstream rate). ADSL requires a special ADSL modem.
ATM	Asynchronous Transfer Mode. ATM is a high bandwidth, low-delay, high-speed transmission technology. ATM is a communication standard that provides for information transfer in the form of fixed-length cells of 53 bytes each. The ATM format can be used to deliver voice, video and data traffic at varying rates.
backbone	A centralized high-speed network that interconnects smaller, independent networks.
bandwidth	The number of bits of information which can move over a communication medium in a given amount of time. Typically measured in Kbps and Mbps.
bps	Bits per second. A measure of digital information transmission rates. A rate of one bps can transmit one bit in a second.
cable modem	A modem designed to operate over HFC lines. Because HFC lines generally provide much greater bandwidth than telephone lines, a cable modem can be used to achieve faster access to the world wide web.
dedicated line	Telecommunication lines dedicated or reserved for use by particular subscribers along predetermined routes.
DSL	Digital Subscriber Line. DSL is a technology for bringing high bandwidth information to homes and small businesses over ordinary copper telephone lines.
Gbps	Gigabits per second. A measure of digital information transmission rates. One Gbps equals 1,000 Mbps, one million Kbps, or one billion bps.
GHz	Gigahertz. A unit of frequency denoting one billion cycles per second, used to measure band and bandwidth.
HFC	Hybrid Fiber Coaxial. HFC cable is used in broadband telecommunication systems. HFC can transmit between 500 MHz to 1,000 MHz of bandwidth in both directions.
IDC	Internet data center. IDC provides services such as co-location, dedicated server hosting, security, backup, storage hosting and network equipment rental services.

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IMT-2000	International Mobile Telecommunications 2000. IMT-2000, or “3G,” is an initiative of the International Telecommunication Union to unify the diverse second-generation systems in the global wireless industry that are currently largely incompatible by establishing certain global standards for third-generation systems that will provide a common air interface capable of offering wireless multimedia service globally at transmission speeds of up to 348 Kbps on the move and 2 Mbps when stationary or indoors.
Internet	A global network connecting millions of computers. More than 100 countries are linked into exchanges of data, news and opinions.
ISP	Internet Service Provider. An ISP is a company that provides access to the Internet. For a monthly fee, the service provider provides a software package, user name, password and access phone number. Equipped with a modem, the user can then log on to the Internet and browse the world wide web.
Kbps	Kilobits per second. A measure of digital information transmission rates. One Kbps equals 1,000 bps.
KHz	Kilohertz. A unit of frequency denoting one thousand cycles per second, used to measure band and bandwidth.
LAN	Local Area Network. A LAN is a group of computers and associated devices that share a common communications line and typically share the resources of a single processor or server within a small geographic area (for example, within an office building). Usually, the server has applications and data storage that are shared in common by multiple computer users.
leased line	A permanent telephone connection between two points set up by a network service provider. Typically, leased lines are used by business to connect geographically distant offices. The fee for the connection is usually a fixed monthly rate.
Mbps	Megabits per second. A measure of digital information transmission rates. One Mbps equals 1,000 Kbps or one million bps.
MHz	Megahertz. A unit of frequency denoting one million cycles per second, used to measure band and bandwidth.
MIC	Ministry of Information and Communication of Korea.
NSP	Network Service Provider.
remote terminal	A system that multiplexes voice and data signals into synchronous data streams and transmits them as optical signals.
router	A device that forwards data packets between interconnected network segments.

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VDSL	Very high bit rate Digital Subscriber Line. VDSL is a technology that allows final delivery of data over existing copper telephone lines. VDSL supports data rates of up to 52 Mbps when receiving data (known as the downstream rate).
VoIP	Voice over Internet Protocol (that is, voice delivered using the Internet Protocol) is a term used in Internet Protocol telephony for a set of facilities for managing the delivery of voice information using the Internet Protocol. This means sending voice information in digital form in discrete packets rather than in the traditional circuit-committed protocols of the public switched telephone network.
WiBro	A 2.3 GHz wireless broadband technology.
WLL	Wireless Local Loop. A local loop using fixed radio access technology to provide low to medium speed Internet services.

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**hanarotelecom incorporated AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005
AND REPORT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM**

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
hanarotelecom incorporated:

We have audited the accompanying consolidated balance sheets of hanarotelecom incorporated and its subsidiaries (collectively referred to as the "Company") as of December 31, 2004 and 2005, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005, 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, the financial statements referred to above present fairly, in all material respects, the financial position of hanarotelecom incorporated and its subsidiaries as of December 31, 2004 and 2005, and the results of their operations, changes in shareholders' equity and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with financial accounting standards in the Republic of Korea.

Our audits also comprehended the translation of Korean won amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers in the United States of America.

Accounting practices used by the Company in preparing the accompanying financial statements conform with generally accepted accounting principles in the Republic of Korea, but do not conform with generally accepted accounting principles in the United States of America. The description of the significant differences and the reconciliation of net loss and shareholders' equity to U.S. generally accepted accounting principles are set forth in Note 28.

Deloitte Anjin LLC

Seoul, Korea
April 14, 2006

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hanarotelecom incorporated AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2004 AND 2005

ASSETS	Korean Won		Translation into
	2004	2005	U.S. Dollars (Note 2)
	(In millions)		2005 (In thousands)
CURRENT ASSETS:			
Cash and cash equivalents (Note 3)	₩ 168,346	₩ 154,918	\$ 153,384
Short-term financial instruments (Notes 4 and 5)	193,716	23,350	23,119
Short-term investment securities (Note 6)	1,121	—	—
Trade receivables, net of allowance for doubtful accounts of ₩62,216 million in 2004 and ₩99,387 million in 2005	205,600	221,259	219,068
Short-term loans, net of discount on present value of ₩209 million in 2004 and ₩400 million in 2005 (Note 9)	7,631	10,260	10,158
Accounts receivable-other, net of allowance for doubtful accounts of ₩55 million in 2004 and ₩27,000 million in 2005, and discount on present value of nil in 2004 and ₩273 million in 2005 (Note 20)	1,306	8,820	8,733
Accrued income	2,083	758	750
Prepaid expenses	13,240	23,537	23,304
Refundable income tax	3,037	3,224	3,192
Advanced payments	26,853	114	113
Inventories	1,864	134	133
	<u>624,797</u>	<u>446,374</u>	<u>441,954</u>
NON-CURRENT ASSETS:			
Long-term financial instruments (Notes 4 and 5)	68	1,622	1,606
Long-term investment securities (Note 7)	28,816	31,471	31,159
Long-term trade receivables, net of allowance for doubtful accounts of ₩535 million in 2004 and ₩981 million in 2005	1,083	2,349	2,326
Long-term loans, net of allowance for doubtful accounts of nil in 2004 and ₩2,487 million in 2005, and discount on present value of ₩2,709 million in 2004 and ₩1,570 million in 2005 (Note 9)	16,086	9,234	9,143
Long-term non-trade receivables, net of allowance for doubtful accounts of nil in 2004 and ₩1,069 million in 2005, and discount on present value of nil in 2004 and ₩145 million in 2005	—	7,203	7,132
Key-money deposits (Note 20)	72,193	76,359	75,603
Long-term prepaid expenses	12,352	12,729	12,603
Deferred income tax assets (Note 19)	607	195	193
Property and equipment, net (Notes 10, 11, 13 and 24)	2,372,845	2,337,884	2,314,737
Intangibles (Notes 12, 13 and 24)	56,265	108,840	107,762
	<u>2,560,315</u>	<u>2,587,886</u>	<u>2,562,264</u>
Total Assets	<u>₩3,185,112</u>	<u>₩3,034,260</u>	<u>\$ 3,004,218</u>

(Continued)

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hanarotelecom incorporated AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2004 AND 2005

LIABILITIES AND SHAREHOLDERS' EQUITY	Korean Won		Translation into
	2004	2005	U.S. Dollars (Note 2)
	(In millions)		2005
			(In thousands)
CURRENT LIABILITIES:			
Trade payables (Note 20)	₩ 28,803	₩ 30,319	\$ 30,019
Other accounts payable	138,443	138,051	136,684
Advances received	9,983	11,564	11,450
Accrued expenses (Notes 20 and 28)	81,490	144,479	143,049
Withholdings	16,263	19,715	19,520
Income tax payable	653	92	91
Current maturities of long-term debt, net of discount on debentures of ₩6,543 million in 2004 and ₩482 million in 2005, and discount on present value of nil in 2004 and ₩3,844 million in 2005 (Notes 11 and 13)	413,526	242,801	240,397
Forward exchange contracts (Note 15)	33,802	47,420	46,950
Interest swap (Note 15)	17,623	1,859	1,841
Deferred income tax liabilities (Note 19)	—	20	19
Deposits received	1,924	1,856	1,838
	<u>742,510</u>	<u>638,176</u>	<u>631,858</u>
LONG-TERM LIABILITIES:			
Long-term debt, net of current portion (Note 13)	399,154	244,979	242,554
Debentures, net (Note 13)	189,518	493,206	488,323
Long-term obligation under capital leases (Note 11)	32,541	12,704	12,578
Long-term advances received	13,142	11,969	11,850
Accrued severance indemnities, net (Note 2)	32,932	32,698	32,374
Long-term deposits received	23,709	27,448	27,176
	<u>690,996</u>	<u>823,004</u>	<u>814,855</u>
Total Liabilities	<u>1,433,506</u>	<u>1,461,180</u>	<u>1,446,713</u>
COMMITMENTS AND CONTINGENCIES (Note 21)			
SHAREHOLDERS' EQUITY (Note 1):			
Capital stock (Note 16)	2,310,676	2,310,676	2,287,799
Paid-in capital in excess of par value	341,033	340,917	337,542
Accumulated deficit (Note 28)	(887,158)	(1,096,222)	(1,085,368)
Capital adjustments:			
Stock compensation (Note 17)	7,227	11,465	11,351
Valuation gain (loss) on available-for-sale securities, net	(5,764)	3,183	3,151
Valuation loss on interest swap (Note 15)	(17,623)	(1,859)	(1,841)
Minority interests	3,215	4,920	4,871
Total Shareholders' Equity	<u>1,751,606</u>	<u>1,573,080</u>	<u>1,557,505</u>
Total Liabilities and Shareholders' Equity	<u>₩3,185,112</u>	<u>₩ 3,034,260</u>	<u>\$ 3,004,218</u>

See accompanying notes to consolidated financial statements.

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hanarotelecom incorporated AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	Korean Won			Translation into U.S. Dollars (Note 2)
	2003	2004	2005	2005
	(In millions, except per share amount)			(In thousands, except per share amount)
OPERATING REVENUE (Notes 20 and 24)	₩1,383,486	₩1,449,569	₩1,589,345	\$ 1,573,609
OPERATING EXPENSES (Notes 18 and 20)	1,312,792	1,335,639	1,550,823	1,535,468
OPERATING INCOME (Note 24)	70,694	113,930	38,522	38,141
NON-OPERATING INCOME:				
Interest income	18,465	18,497	16,637	16,472
Gain on disposal of short-term investment securities	315	—	—	—
Gain on disposal of long-term investment securities	145	109	439	435
Gain on disposal of investment securities using the equity method	—	—	25,391	25,140
Gain on disposal of property and equipment	1,102	885	3,962	3,923
Gain on foreign currency transactions	267	1,404	8,881	8,793
Gain on foreign currency translation	19	33,823	11,699	11,583
Gain on early redemption of debentures (Note 13)	870	—	—	—
Gain on valuation of forward exchange contract	173	—	—	—
Gain on transaction of forward exchange contract (Note 15)	343	242	—	—
Other	5,273	7,215	16,188	16,027
	<u>26,972</u>	<u>62,175</u>	<u>83,197</u>	<u>82,373</u>
NON-OPERATING EXPENSES:				
Interest expense (Note 13)	139,330	100,882	98,814	97,836
Asset Backed Securities payable expense (Note 14)	9,028	490	—	—
Loss on foreign currency transactions	764	354	264	261
Loss on foreign currency translation	138	11	1,092	1,081
Loss on disposal of short-term investment securities	2,117	86	29	28
Loss on disposal of long-term investment securities	—	1	1,381	1,367
Loss on valuation of trading securities	307	—	—	—
Impairment loss on short-term investment securities (Note 6)	940	450	1,120	1,109
Impairment loss on long-term investment securities (Note 7)	3,385	2,539	4,045	4,005
Donations	800	306	312	309
Loss on early redemption of debentures (Note 13)	308	—	165	163
Loss on early redemption of long-term debt (Note 13)	—	—	2,235	2,213
Loss on redemption of long-term obligation under capital leases (Note 11)	—	—	58	57
Loss on valuation using the equity method (Note 8)	23,142	—	—	—
Loss on disposal of property and equipment	1,326	1,246	2,154	2,133
Loss on disuse of property and equipment (Note 10)	61,333	20,726	60,586	59,986
Loss on valuation of forward exchange contract (Note 15)	—	33,975	19,842	19,646
Loss on transaction of forward exchange contract (Note 15)	—	173	—	—
Impairment loss on intangibles (Note 12)	—	86	79,641	78,852
Other bad debt	—	—	12,127	12,007
Non-operating expense-other (Note 2)	4,513	—	22,039	21,821
Other	11,147	931	7,602	7,528
	<u>258,578</u>	<u>162,256</u>	<u>313,506</u>	<u>310,402</u>

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hanarotelecom incorporated AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	Korean Won			Translation into
	2003	2004	2005	U.S. Dollars (Note 2)
	(In millions, except per share amount)			2005
				(In thousands, except per share amount)
ORDINARY INCOME (LOSS)	<u>₩(160,912)</u>	<u>₩13,849</u>	<u>₩(191,787)</u>	\$ (189,888)
EXTRAORDINARY ITEMS (Note 25)	<u>—</u>	<u>—</u>	<u>(19,018)</u>	<u>(18,830)</u>
INCOME (LOSS) BEFORE INCOME TAX	(160,912)	13,849	(210,805)	(208,718)
INCOME TAX EXPENSE (Note 19)	(302)	(495)	(434)	(430)
MINORITY INTEREST SHARE OF LOSS (INCOME)	<u>(85)</u>	<u>(308)</u>	<u>1,921</u>	<u>1,902</u>
NET INCOME (LOSS)	<u>₩(161,299)</u>	<u>₩13,046</u>	<u>₩(209,318)</u>	\$ (207,246)
BASIC AND DILUTED ORDINARY INCOME (LOSS) PER SHARE (Note 2)	<u>₩ (502)</u>	<u>₩ 28</u>	<u>₩ (412)</u>	\$ (0.41)
BASIC AND DILUTED NET INCOME (LOSS) PER SHARE (Note 2)	<u>₩ (502)</u>	<u>₩ 28</u>	<u>₩ (453)</u>	\$ (0.45)

See accompanying notes to consolidated financial statements.

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hanarotelecom incorporated AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	Korean Won (In millions)					Total
	Common stock	Capital surplus	Accumulated deficit	Capital adjustments	Minority interests	
Balance at December 31, 2002	<u>₩1,396,613</u>	<u>₩ 689,758</u>	<u>₩ (737,987)</u>	<u>₩ (5,546)</u>	<u>₩ 145,477</u>	<u>₩1,488,315</u>
Issuance of common stock	914,063	(348,173)	—	—	—	565,890
Net loss for 2003	—	—	(161,299)	—	85	(161,214)
Effect of changes in consolidated subsidiaries	—	(808)	489	—	(144,964)	(145,283)
Compensation expense related to stock options	—	—	—	1,375	—	1,375
Net unrealized loss on available-for-sale securities	—	—	—	(2,376)	—	(2,376)
Net unrealized loss on investment securities using the equity method	—	(8,557)	—	(7)	—	(8,564)
Loss on valuation of interest swap	—	—	—	(7,425)	—	(7,425)
Foreign-based operations translation Debit	—	—	—	2	—	2
Balance at December 31, 2003	<u>2,310,676</u>	<u>332,220</u>	<u>(898,797)</u>	<u>(13,977)</u>	<u>598</u>	<u>1,730,720</u>
Net income for 2004	—	—	13,046	—	308	13,354
Effect of changes in consolidated Subsidiaries	—	256	(300)	22	2,309	2,287
Compensation expense related to stock options	—	—	—	1,311	—	1,311
Net recognized gain included in earnings	—	—	—	1,037	—	1,037
Net unrealized gain on available-for-sale securities	—	—	—	5	—	5
Effect of changes in investment securities using the equity method	—	8,557	(1,107)	7	—	7,457
Loss on valuation of interest swap	—	—	—	(4,565)	—	(4,565)
Balance at December 31, 2004	<u>2,310,676</u>	<u>341,033</u>	<u>(887,158)</u>	<u>(16,160)</u>	<u>3,215</u>	<u>1,751,606</u>
Net loss for 2005	—	—	(209,318)	—	(1,921)	(211,239)
Effect of changes in consolidated subsidiaries	—	(116)	254	1,160	3,626	4,924
Compensation expense related to stock options	—	—	—	4,238	—	4,238
Net recognized gain included in earnings	—	—	—	5,643	—	5,643
Net unrealized gain on available-for-sale securities	—	—	—	2,144	—	2,144
Gain on valuation of interest swap	—	—	—	15,764	—	15,764
Balance at December 31, 2005	<u>₩2,310,676</u>	<u>₩ 340,917</u>	<u>₩(1,096,222)</u>	<u>₩ 12,789</u>	<u>₩ 4,920</u>	<u>₩1,573,080</u>
Translation into U.S. Dollars (In thousands) (Note 2)	<u>\$ 2,287,799</u>	<u>\$ 337,542</u>	<u>\$ (1,085,368)</u>	<u>\$ 12,661</u>	<u>\$ 4,871</u>	<u>\$ 1,557,505</u>

See accompanying notes to consolidated financial statements.

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hanarotelecom incorporated AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	2003	Korean Won 2004 (In millions)	2005	Translation into U.S. Dollars (Note 2) 2005 (In thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	₩(161,299)	₩ 13,046	₩(209,318)	\$ (207,246)
Addition of expenses not involving cash outflows:				
Stock compensation expense	1,375	1,278	4,238	4,195
Provision for severance indemnities	13,444	14,095	14,918	14,770
Amortization of discount on debentures	18,857	10,698	7,631	7,555
Amortization of discount on present value of long-term debt	408	4,983	5,800	5,743
Recognition of long-term accrued interest	6,171	—	669	662
Employee fringe benefits	944	1,302	638	632
Depreciation and amortization	428,528	442,312	498,087	493,155
Loss on foreign currency translation	138	11	1,092	1,081
Provision for doubtful accounts	25,744	29,933	19,065	18,876
Loss on valuation of trading securities	307	—	—	—
Loss on disposal of property and equipment	1,326	1,246	2,154	2,133
Impairment loss on short-term investment securities	940	450	1,120	1,109
Impairment loss on long-term investment securities	3,385	2,539	4,045	4,005
Loss on disposal of short-term investment securities	2,117	86	29	28
Loss on disposal of long-term investment securities	—	1	1,381	1,367
Loss on valuation using the equity method	23,142	—	—	—
Loss on disuse of property and equipment	61,333	20,726	60,586	59,986
Loss on early redemption of debentures	308	—	165	163
Loss on early redemption of long-term debt	—	—	2,235	2,213
Loss on early redemption of long-term obligation under capital leases	—	—	58	57
Loss on valuation of forward exchange contract	—	33,975	19,842	19,646
Impairment loss on intangibles	—	86	79,641	78,852
Other bad debt	—	—	12,127	12,007
Extraordinary loss	—	—	12,870	12,743
Minority interest income	85	308	—	—
Ordinary development cost and other	643	548	3,330	3,300
	<u>589,195</u>	<u>564,577</u>	<u>751,721</u>	<u>744,278</u>
Deduction of revenues not involving cash inflows:				
Gain on disposal of short-term investment securities	315	—	—	—
Amortization of present value discount	2,019	1,506	1,656	1,640
Gain on valuation of forward exchange contract	173	—	—	—
Gain on disposal of property and equipment	1,102	885	3,962	3,923
Gain on disposal of long-term investment securities	145	109	439	435
Gain on disposal of investment securities using the equity method	—	—	25,391	25,140
Gain on foreign currency translation	19	33,823	11,699	11,583
Gain on early redemption of debentures	870	—	—	—
Minority interest loss	—	—	1,921	1,902
Other	56	224	1,593	1,577
	<u>4,699</u>	<u>36,547</u>	<u>46,661</u>	<u>46,200</u>

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hanarotelecom incorporated AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	Korean Won			Translation into
	2003	2004	2005	U.S. Dollars (Note 2)
		(In millions)		2005
				(In thousands)
Changes in assets and liabilities resulting from operations:				
Decrease (Increase) in trade receivables	₩ (37,260)	₩ (24,643)	₩ 5,726	\$ 5,669
Decrease in long-term trade receivables	—	100	—	—
Decrease in accounts receivable-other	2,693	6,494	8,116	8,036
Decrease (Increase) in accrued income	(1,263)	4,243	2,065	2,045
Decrease (Increase) in prepaid expenses	5,710	(1,629)	(17,786)	(17,610)
Decrease (Increase) in refundable income tax	1,367	(671)	(2,723)	(2,696)
Decrease (Increase) in advanced payments	(1,370)	(25,529)	548	543
Increase in inventories	(32,218)	(30,929)	(16,319)	(16,157)
Increase in forward exchange contract	(1,888)	—	—	—
Decrease (Increase) in long-term prepaid expenses	1,097	541	(377)	(373)
Decrease (Increase) in deferred income tax assets	(51)	(402)	203	201
Increase (Decrease) in trade payables	(38,320)	(7,316)	1,565	1,550
Increase (Decrease) in other accounts payable	(28,698)	20,347	(5,404)	(5,350)
Increase in advances received	347	4,129	4,349	4,306
Increase (Decrease) in accrued expenses	18,512	(6,948)	35,569	35,217
Increase (Decrease) in withholdings	7,314	(6,441)	1,536	1,521
Decrease in forward exchange contract	—	—	(6,224)	(6,162)
Increase (Decrease) in income tax payable	(1,436)	474	(208)	(206)
Decrease in long-term advances received	(1,189)	(1,173)	(1,173)	(1,161)
Increase (Decrease) in deposits received	893	(77)	167	165
Increase in long-term deposits received	1,013	3,219	3,326	3,292
Increase (Decrease) in deferred income tax liabilities	(1)	90	(14)	(13)
Increase in foreign based operations translation credit	2	—	—	—
Decrease in payments to National Pension	140	23	45	44
Payments of severance indemnities	(15,556)	(5,090)	(19,666)	(19,472)
	<u>(120,162)</u>	<u>(71,188)</u>	<u>(6,679)</u>	<u>(6,611)</u>
Net cash flows provided by operating activities	<u>303,035</u>	<u>469,888</u>	<u>489,063</u>	<u>484,221</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from disposal of short-term investment securities	34,143	303	472	467
Collection of short-term financial instruments	842,882	778,170	354,499	350,989
Redemption of short-term loans	6,771	6,320	3,051	3,021
Redemption of long-term loans	2,734	1,280	4,569	4,524
Proceeds from disposal of long-term investment securities	406	9,002	6,826	6,758
Proceeds from disposal of investments in consolidated subsidiaries	—	—	5,000	4,950
Withdrawal of long-term financial instruments	—	3	—	—
Refund of key-money deposits	18,152	14,642	25,741	25,486
Proceeds from disposal of property and equipment	9,304	8,218	4,447	4,403
Withdrawal of severance insurance deposits	1,009	99	1,438	1,424
Acquisition of short-term financial instruments	(929,616)	(751,564)	(182,133)	(180,330)
Purchase of short-term investment securities	(17,807)	—	(500)	(495)
Extension of short-term loans	(614)	(417)	(694)	(687)
Purchase of long-term investment securities	(1,132)	(190)	(198,447)	(196,482)

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hanarotelecom incorporated AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	Korean Won			Translation into
	2003	2004	2005	U.S. Dollars (Note 2)
	(In millions)			2005
				(In thousands)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of long-term financial instruments	₩ (2)	₩ (131)	₩ (870)	\$ (861)
Extension of long-term loans	(5,404)	(2,755)	(1,449)	(1,435)
Extension of long-term non-trade receivables	—	—	(613)	(607)
Payment of key-money deposits	(2,324)	(42,083)	(20,130)	(19,931)
Acquisition of consolidated subsidiaries	—	(3,734)	(249,110)	(246,644)
Acquisition of property and equipment	(196,053)	(212,522)	(311,676)	(308,589)
Payment of intangibles	(13,118)	(12,163)	(13,268)	(13,137)
Payment of severance insurance deposits	(124)	(1,659)	(1,778)	(1,760)
Net cash flows used in investing activities	<u>(250,793)</u>	<u>(209,181)</u>	<u>(574,625)</u>	<u>(568,936)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from short-term borrowings	338,000	—	—	—
Proceeds from long-term debt	148,329	322,549	281,697	278,908
Proceeds from issuance of debentures	261,013	—	503,544	498,558
Proceeds from issuance of common stock	565,889	—	—	—
Proceeds from long-term deposits received	1,487	—	—	—
Repayment of short-term borrowings	(230,000)	(163,000)	—	—
Repayment of long-term debt	(1,096,800)	(421,961)	(833,607)	(825,353)
Decrease in Asset Backed Securities payable	(122,972)	(32,510)	—	—
Net cash flows used in financing activities	<u>(135,054)</u>	<u>(294,922)</u>	<u>(48,366)</u>	<u>(47,887)</u>
INCREASE (DECREASE) FROM CHANGES IN CONSOLIDATED SUBSIDIARIES				
	<u>(23,758)</u>	<u>3,013</u>	<u>120,500</u>	<u>119,307</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(106,570)</u>	<u>(31,202)</u>	<u>(13,428)</u>	<u>(13,295)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>306,118</u>	<u>199,548</u>	<u>168,346</u>	<u>166,679</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>₩ 199,548</u>	<u>₩ 168,346</u>	<u>₩ 154,918</u>	<u>\$ 153,384</u>

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hanarotelecom incorporated AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Korean Won			Translation into
	2003	2004 (In millions)	2005	U.S. Dollars (Note 2) 2005 (In thousands)
CASH PAID FOR INTEREST	₩125,291	₩ 82,453	₩ 78,573	\$ 77,795
CASH PAID FOR INCOME TAX	1,030	1,348	186	184
TRANSACTIONS NOT INVOLVING CASH:				
Transfer of long-term loans to current portion	13,830	4,759	10,032	9,933
Transfer of inventories to property and equipment	41,801	31,480	19,242	19,051
Transfer of debentures to current portion	264,688	306,000	190,000	188,119
Transfer of long-term debt to current portion	103,271	72,956	40,948	40,543
Transfer of long-term obligation under capital lease to current portion	87,297	53,108	39,255	38,866
Transfer of Asset Backed Securities payable to current portion	32,510	—	—	—
Recognition of loss on valuation of available-for-sale securities as capital adjustments	3,496	681	—	—
Recognition of income on valuation of available-for-sale securities as capital adjustments	—	—	3,738	3,701
Transfer of construction in progress to property and equipment	125,045	70,698	130,869	129,573
Acquisition of property and equipment under long-term lease obligation	98,230	37,731	—	—
Transfer of construction in progress to intangibles	—	—	3,479	3,445
Transfer of short-term loans to long-term loans	—	—	4,855	4,807
Transfer of trade receivables to long-term trade receivables	—	—	2,142	2,121
Transfer of advanced payments to inventories	—	—	1,193	1,181
Transfer of advanced payments to long-term investment securities	—	—	24,940	24,693
Transfer of refundable income tax to accounts receivables-other	—	—	3,012	2,982
Transfer of advances received from proceeds from disposal of investments in consolidated subsidiaries	—	—	3,200	3,168
Receivable from disposal of consolidated subsidiaries	—	—	23,800	23,564
Transfer of prepaid expenses to long-term present value discount	—	10,561	7,317	7,245
Transfer of provision for severance indemnities to construction in progress	—	620	790	782
Transfer of other current liabilities to long-term deposits received	17,121	—	—	—

See accompanying notes to consolidated financial statements.

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hanarotelecom incorporated AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003, 2004 AND 2005

1. GENERAL:

(1) hanarotelecom incorporated

hanarotelecom incorporated (“hanaro”) was incorporated on September 26, 1997 pursuant to the laws of the Republic of Korea (“Korea”). hanaro was formed following its selection by the Ministry of Information and Communication (“MIC”) on June 13, 1997 as the second carrier to provide local telephony services in Korea. On November 11, 1998, hanaro was listed on the Korea Securities Dealers Automated Quotation System (“KOSDAQ”). hanaro issued American Depository Receipts (“ADRs”) on April 4, 2000, which are traded on the National Association of Securities Dealers Automated Quotation System (“NASDAQ”).

hanaro commenced providing local call and high-speed data access, internet and multimedia access on April 1, 1999 and is providing services in 83 cities, including Seoul, Busan, Ulsan and Incheon, and 53 counties as of December 31, 2005. On December 12, 2002, hanaro received a license to provide domestic long-distance calls and international calls from the MIC, and commenced providing the service from July 1, 2004.

hanaro’s headquarters is located in Yoido-dong, Seoul. hanaro has 26 domestic branches and also has invested in several companies such as Korea Thrunet Co., Ltd., Hanaro Realty Development & Management Co., Ltd., Hanaro Telephone & Internet Information, Inc. and Hanaro Dream Inc. in order to facilitate and strengthen its services.

As of December 31, 2005, the shareholders of hanaro are as follows:

	Number of shares	Percentage of ownership (%)
Newbridge Asia HT, L.P.	49,535,799	10.72
AIF II NT, Ltd.	38,456,250	8.32
SSB - AOF NT, Ltd.	24,721,875	5.35
United Classic Investment Limited	20,392,746	4.41
HT Holding V, L.P.	9,418,330	2.04
HT Holdings VI, L.P.	7,325,000	1.59
HT Holdings VII, L.P.	9,156,250	1.98
HT Holdings VIII, L.P.	10,987,500	2.38
HT Holdings IX, L.P.	12,818,750	2.77
SK Telecom	22,090,000	4.78
Daewoo Securities Co., Ltd.	12,000,000	2.60
Dacom Corporation	8,964,561	1.94
Hong Kong & Shanghai Banking Corp.	7,630,778	1.65
Credit Suisse Financial	6,054,513	1.31
LG Telecom	5,397,574	1.17
NTC-SAUDI ARAB MON	4,999,155	1.08
Employee stock ownership association	2,229,232	0.48
Others	209,956,867	45.43
	<u>462,135,180</u>	<u>100.00</u>

The major shareholder of hanaro is AIG-Newbridge-TVG Consortium, which has 182,812,500 shares, 39.56% of ownership of the Company.

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(2) Consolidated Subsidiaries

The consolidated financial statements include the accounts of hanaro and its controlled subsidiaries (collectively referred to as the "Company"). Controlled subsidiaries include majority-owned entities and entities of which hanaro owns more than 30 percent of the total outstanding voting stock and is the largest shareholder. Significant inter-company accounts and transactions have been eliminated in the consolidation. The ownership percentages disclosed in the following table relate to the period that such entities were consolidated.

Subsidiaries	Year control was obtained	Ownership percentage (%)		Primary business
		2004	2005	
Hanaro Realty Development & Management Co., Ltd.	1999	99.99	99.99	Property management of hanarotelecom incorporated
Hanaro Telephone & Internet Information, Inc.	2002	99.99	99.99	Customer Q & A and service
Hanaro WEB(n)TV	2000	49.00	—	Broadcasting & telecommunication
Media Holdings, Inc.	2004	100.00	—	Investment in broadcasting company
Hanaro Dream, Inc.	2004	57.02	57.02	Distribution industry of internet digital contents
Korea Thrunet Co., Ltd.	2005	—	96.22	Internet and multimedia access service

hanaro purchased Korea Thrunet Co., Ltd.'s stocks during 2005 and included it in the consolidated financial statements. Also, hanaro excluded Hanaro Web(n)TV and Media Holdings, Inc. from the consolidated financial statements due to disposal as of December 31, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

hanaro and its domestic subsidiaries maintain their official accounting records in Korean won and prepare statutory consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea ("Korean GAAP"). Certain accounting principles applied by the Company and its domestic subsidiaries 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 accompanying financial statements are stated in Korean Won, the currency of the country in which hanaro is incorporated and operates. The translation of Korean Won amounts into U.S. dollar amounts is included solely for the convenience of the readers outside of the Republic of Korea and has been made at the rate of ₩1,010.00 to US\$1.00, the noon buying rate in the City of New York for cable transfers in Won as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2005. Such translations should not be construed as representations that the Korean Won amounts could be converted at that or any other rate.

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

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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 consolidated financial statements and accompanying notes. The most significant estimates and assumptions relate to revenue recognition, allowance for doubtful accounts, depreciation, investments in non-listed equity securities and deferred income taxes. Actual results could differ from those estimates and may affect amounts reported in future periods. Management believes that the estimates are reasonable.

Revenue Recognition

Revenue related to installation of service and sale of customer premises equipment is recognized when equipment is delivered and installation is completed. Revenue from monthly recurring service is recognized in the month the service is provided.

Cash and Cash Equivalents

Cash and cash equivalents are bank deposits and short-term money market instruments that can be easily converted into cash and whose risk of value fluctuation arising from changes of interest rates is not material. Only investments with maturities of three months or less from the acquisition date are included in cash equivalents.

Short-term Financial Instruments

Short-term financial instruments primarily consist of time deposits with original maturities of less than one year and repurchase agreements that invest in short-term highly liquid securities. Short-term financial instruments are recorded at cost. Interest income on short-term financial instruments is accrued as earned.

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 accounts of trade receivables, accounts receivable-other, long-term trade receivables, long-term loans and long-term non-trade receivables for the years ended December 31, 2003, 2004 and 2005 are as follows (won in millions):

	2003	2004	2005
Beginning of year	<u>₩21,170</u>	<u>₩41,089</u>	<u>₩ 62,806</u>
Provision	25,744	29,933	31,192
Write-offs	(1,569)	(8,969)	(27,219)
Changes in consolidated subsidiaries	(4,256)	753	64,145
End of year	<u>₩41,089</u>	<u>₩62,806</u>	<u>₩130,924</u>

The Company reclassified the trade receivables from Onse Telecom into long-term trade receivables due to the court arrangement of debt and accordingly, recorded the difference between the trade receivables and the discounted present value as allowance for doubtful accounts in 2003.

Also, in 2004, in accordance with the adoption of SKAS No. 13, the Company reclassified the discount on present value of ₩686 million of the receivables from Onse Telecom incurred during 2003 into allowance for doubtful accounts.

Inventories

Inventories consist primarily of modems and local area network equipment to be leased to customers. Inventories are stated at the lower of cost or net realizable value, cost being determined by 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.

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Investment Securities Other than those Accounted for Using the Equity Method

(1) Classification of Securities

At acquisition, the Company classifies securities into one of three categories: trading, held-to-maturity or available-for-sale. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Held-to-maturity securities are those with fixed and determinable payments and fixed maturity that an enterprise has the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified as either held-to-maturity or trading securities. Trading securities are classified as short-term investment securities, whereas available-for-sale securities and held-to-maturity securities are classified as long-term investment securities, except for those maturity dates or whose likelihood of being disposed of are within one year from the balance sheet date, which are classified as short-term investment securities.

(2) Valuation of Securities

Securities are recognized initially at cost, which includes the market value of the consideration given and incidental expenses. If the market price of the consideration given is not available, the market prices of the securities purchased are used as the basis of measurement. If neither the market price of the consideration given nor those of the acquired securities are available, the acquisition cost is measured at the best estimates of its fair value.

After initial recognition, held-to-maturity securities are valued at amortized cost. The difference between their acquisition costs and face values is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sale securities are also valued at fair value, with unrealized gains or losses included in capital adjustments, until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of capital adjustments are reflected in current operations. However, available-for-sale securities that are not traded in an active market and whose fair values cannot be reliably estimated are accounted for at acquisition costs. For those securities that are traded in an active market (marketable securities), fair values refer to the quoted market prices, which are measured as the closing price at the balance sheet date. The fair values of non-marketable debt securities are measured at the discounted future cash flows by using the discount rate that appropriately reflects the credit rating of the issuing entity assessed by a publicly reliable independent credit rating agency. If application of such measurement method is not feasible, estimates of the fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting similar business in similar industries. Securities are evaluated at each balance sheet date to determine whether there is any objective evidence of impairment loss. When any such evidence exists, unless there is a clear counter-evidence that recognition of impairment is unnecessary, the Company estimates the recoverable amount of the impaired security and recognizes any impairment loss in current operations. The amount of impairment loss of held-to-maturity security or non-marketable equity security is measured as the difference between the recoverable amount and the carrying amount.

The recoverable amount of held-to maturity security is the present value of expected future cash flows discounted at the securities' original effective interest rate. For available-for-sale debt or equity security stated at fair value, the amount of impairment loss to be recognized in the current period is determined by subtracting the amount of impairment loss of debt or equity security already recognized in prior period from the amount of amortized cost in excess of the recoverable amount for debt security or from the amount of acquisition cost in excess of fair value for equity security. For non-marketable equity securities accounted for at acquisition costs, the impairment loss is equal to the difference between the recoverable amount and the carrying amount.

If the realizable value subsequently recovers, in case of a security stated at fair value, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss, while with securities stated at amortized cost or acquisition cost, the increase in value is recorded in current operations, so that its recovered value does not exceed what its amortized cost would be as of the recovery date if there had been no impairment loss.

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(3) Reclassification of Securities

When transfers of securities between categories are needed because of changes in an entity's intention and ability to hold those securities, such transfer is accounted for as follows: trading securities cannot be reclassified into available-for-sale and held-to-maturity securities, and vice versa, except when certain trading securities lose their marketability. Available-for-sale securities and held-to-maturity securities can be reclassified into each other after fair value recognition. When a held-to-maturity security is classified into available-for-sale security, the difference between fair value and book value is recorded as a capital adjustment. Whereas, in the case of an available-for-sale security is reclassified into held-to-maturity securities, the difference is recorded as a capital adjustment and amortized using the effective interest rate method for the remaining periods.

Investment Securities Using the Equity Method

Investments in equity securities in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. The change in the Company's portion of an investee's net equity resulting from a change in an investee's net equity is reflected in the Company's net income (loss), retained earnings and capital adjustments, in accordance with the causes of the change, which consist of the investee's net income (loss), changes in retained earnings and changes in capital surplus and capital adjustments. Unrealized gain (loss) arising from the transactions of assets between the Company and equity method investees is eliminated according to the ownership percentage.

Valuation of Assets and Liabilities at Present Value

Long-term receivables and long-term payables are valued at their present value as discounted at an appropriate discount rate. Discounts are amortized using the effective interest rate method and recognized as interest expense or interest income over the term of the related accounts.

Property and Equipment

Property and equipment are stated at cost. Expenditures incurred after the acquisition of the property and equipment that increase the future economic benefits beyond the property's most recently measured performance are capitalized as addition to property and equipment.

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

	<u>Estimated useful lives</u>
Buildings, building facilities and structures	40~50 years
Machinery	3~15 years
Vehicles and other	4~8 years

The Company changed the useful lives of tangible assets, effective from January 1, 2004, to improve financial soundness and usefulness of accounting information, considering the rapid changes of technologies in the telecommunication industry, the Company's accumulated business experience and the average useful lives used by companies in the same industry. Such changes in accounting estimates increased the Company's depreciation by ₩8 million for the year ended December 31, 2004, in comparison with the calculation applying the previous useful lives.

The changes in the estimated useful lives are as follows:

	<u>Previous useful lives</u>	<u>Revised useful lives</u>
Buildings and structures	50 years	40 years
Machinery (duct line)	8 years	15 years
Machinery (terminal equipment)	8 years	6 years
Vehicles and other	5~8 years	4 years

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Capitalization of Financing Costs

Interest expense, discount and other financial charges, including certain foreign exchange translation gain and loss on borrowings associated with the manufacture, purchase, or construction of property and equipment, incurred prior to the completion of the acquisition, were capitalized until the year ended December 31, 2002, and are no longer capitalized from January 1, 2003 in compliance with SKAS No. 7.

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 is 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 as 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 financial or capital leases. All other leases are accounted for as operating leases. Assets and liabilities related to financial leases are recorded as property 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

Intangibles are stated at cost, net of amortization. Amortization is computed using the straight-line method, based on the estimated useful lives of the assets as described below.

	<u>Estimated Useful Lives</u>
Goodwill	4~5 years
Property rights of industry	5~10 years
Cable line usage rights	15~20 years
Land rights	20 years
Development costs	1 year
Other intangibles	3~5 years

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 employees were to resign amount to ₩36,348 million and ₩36,022 million as of December 31, 2004 and 2005, 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 ₩127 million and ₩82 million as of December 31, 2004 and 2005, respectively, are presented as a 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.

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The Company has entered into a severance insurance plan in accordance with the Labor Standard Law of Korea promulgated in 2000. This plan restricts severance payments directly to the eligible employees and directors, and meets the funding requirement for tax deduction purposes. The amount funded under this severance insurance plan of ₩3,289 million and ₩3,242 million as of December 31, 2004 and 2005, respectively, is presented as a deduction from accrued severance indemnities.

Changes in accrued severance indemnities for the years ended December 31, 2003, 2004 and 2005 are as follows (Won in millions):

	2003	2004	2005
Beginning of year	₩ 28,027	₩25,649	₩ 36,348
Severance payments	(15,556)	(5,090)	(19,666)
Provision	15,224	15,116	16,142
Changes in consolidated subsidiaries	(2,046)	673	3,198
	<u>25,649</u>	<u>36,348</u>	<u>36,022</u>
National Pension Fund for employees	(149)	(127)	(82)
Severance insurance deposits	(1,624)	(3,289)	(3,242)
End of year	<u>₩ 23,876</u>	<u>₩32,932</u>	<u>₩ 32,698</u>

The Company paid early retirement allowance to ₩4,513 million and ₩22,039 million in addition to the normal severance payment for the years ended December 31, 2003 and 2005, respectively. The retirement bonus was recorded as non-operating expense-other.

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 Korea Exchange Bank, which was ₩1,035.00 and ₩1,004.50 to US\$1.00 at December 31, 2004 and 2005, respectively.

Income Tax Expense

The provision for income tax consists of the corporate income tax and resident surtax currently payable and the changes in deferred income taxes for the period. The Company recognizes deferred income 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 are recalculated based on the actual tax rate in effect at each balance sheet date (See Note 19). Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets or liabilities for financial reporting.

Stock Compensation Expense

The Company values stock options granted in 2004 and 2005 using the fair value method (binomial option pricing model). Also, 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 (minimum value method) for the stock options granted in 2000. 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. However, for the stock options granted in 1999, compensation expense was calculated as the difference between the stock price at year-end and the exercise price multiplied by the number of stock options (See Note 17).

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Net Income (Loss) per Share and Ordinary Income (Loss) per Share

Net income (loss) per share and ordinary income (loss) per share are computed by dividing net income (loss) and ordinary income (loss) for common stock, by the weighted average number of common shares outstanding during the period.

Net income (loss) per share and ordinary income (loss) per share for the years ended December 31, 2003, 2004 and 2005 are computed as follows (Won in millions except per shares amounts):

	2003	2004	2005
Net income (loss)	₩ (161,299)	₩ 13,046	₩ (209,318)
Dividend for preferred stock	—	—	—
Net income (loss) for common stock	₩ (161,299)	₩ 13,046	₩ (209,318)
Extraordinary item	—	—	(19,018)
Ordinary income (loss) for common stock	₩ (161,299)	₩ 13,046	₩ (190,300)
The weighted average number of common shares	321,309,739	462,135,180	462,135,180
Basic and diluted net income (loss) per share	₩ (502)	₩ 28	₩ (453)
Basic and diluted ordinary income (loss) per share	₩ (502)	₩ 28	₩ (412)

Net income (loss) per share and ordinary income (loss) per share were not diluted for the years ended December 31, 2003, 2004 and 2005, respectively.

Adoption of Newly Effective Statements of Korea Accounting Standards

The Korea Accounting Standards Board (“KASB”) has published a series of Statements of Korea Accounting Standards (“SKAS”), which replace the existing financial accounting standards, established by the Korean Financial and Supervisory Board. The Company prepared its financial statements as of December 31, 2005 in accordance with Financial Accounting Standards and SKAS in the Republic of Korea.

The Company newly adopted SKAS No. 15—“Investment in Associates”, No. 16—“Income Taxes” and No. 17—“Provisions, Contingent Liabilities and Contingent Assets”, effective from January 1, 2005, and certain amounts and accounts of prior year’s financial statements are reclassified to conform to the current year’s presentation. This reclassification does not affect the net income and net assets of the prior period.

3. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of December 31, 2004 and 2005 are as follows (Won in millions):

	Interest rate per annum (%)	Amount	
	2005	2004	2005
Cash on hand	—	₩ 7	₩ 5
Current deposits	—	50	—
Passbook accounts	0.1	4,045	6,291
Specified fund trusts	3.1 ~ 5.5	—	5,557
Time deposits	3.64	37,000	1,000
Commercial paper	—	11,586	—
Money Market Funds	3.4 ~ 4.05	96,762	119,321
Money Market Deposit Accounts	1.6 ~ 3.0	3,896	7,698
Repurchase agreements	3.65	5,000	5,046
Certificate of deposits	3.8	10,000	10,000
		₩168,346	₩154,918

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4. SHORT-TERM AND LONG-TERM FINANCIAL INSTRUMENTS:

(1) Short-term financial instruments as of December 31, 2004 and 2005 are as follows (Won in millions):

	Interest rate per annum (%)	Amount	
	2005	2004	2005
Time deposits	3.3 ~ 4.4	₩144,005	₩17,255
Repurchase agreements	3.4 ~ 4.6	29,521	6,095
Commercial paper	—	5,190	—
Certificate of deposits	—	15,000	—
		<u>₩193,716</u>	<u>₩23,350</u>

(2) Long-term financial instruments as of December 31, 2004 and 2005 are as follows (Won in millions):

	Interest rate per annum (%)	Amount	
	2005	2004	2005
Deposits for checking accounts	—	₩ 8	₩ 14
Repurchase agreements	3.75	—	504
Time deposits	3.05 ~ 4.6	60	1,104
		<u>₩ 68</u>	<u>₩1,622</u>

5. RESTRICTED DEPOSITS:

As of December 31, 2004 and 2005, the following deposits are subject to withdrawal restriction as guarantee for the payment of borrowings, checking accounts and other reasons (Won in millions).

	Amount	
	2004	2005
Short-term financial instruments	₩117,267	₩22,709
Long-term financial instruments	68	1,445
	<u>₩117,335</u>	<u>₩24,154</u>

6. SHORT-TERM INVESTMENT SECURITIES:

Short-term investment securities as of December 31, 2004 and 2005 are as follows (Won in millions):

	2004		2005	
	Acquisition cost	Book value	Acquisition cost	Book value
Held-to-maturity securities:				
Collateralized bond obligation	₩ 1,570	₩ 1,120	₩ 1,120	₩ —
Government bonds	1	1	—	—
	<u>₩ 1,571</u>	<u>₩ 1,121</u>	<u>₩ 1,120</u>	<u>₩ —</u>

The Company recorded ₩940 million, ₩450 million and £1,120 million of impairment loss on short-term investment securities for the years ended December 31, 2003, 2004 and 2005, respectively.

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7. LONG-TERM INVESTMENT SECURITIES:

(1) Long-term investment securities as of December 31, 2004 and 2005 consist of the following (Won in millions):

	2004		2005	
	Ownership percentage (%)	Amount	Ownership percentage (%)	Amount
Available-for-sale securities:				
Listed equity securities:				
LG Telecom, Ltd.	0.37	₩ 4,143	—	₩ —
Netsecure Technology, Inc.	0.38	18	—	—
C.C.S., Inc.	7.22	1,698	7.22	3,842
Dong Bu Securities Co., Ltd.	—	—	0.67	1,345
		<u>5,859</u>		<u>5,187</u>
Non-listed equity securities:				
Dreamline Corp.	14.18	16,935	11.54	16,935
Korea Information Assurance, Inc.	0.47	100	0.47	100
CCR Inc.	2.08	484	2.08	185
Dauinternet, Inc.	0.71	28	0.71	18
Korea Digital Cable Media Center	4.75	550	4.21	500
HeyAnita Korea Inc.	—	—	15.58	828
Saeronet Broadcasting Co., Ltd.	—	—	8.18	1,151
Powercomm Corporation	—	—	0.06	1,000
CJ Cablenet Haeundae-Kijjang Corp.	—	—	20.00	1,118
Rent House Co., Ltd.	—	—	20.00	21
Korea.com Communications Co., Ltd.	—	—	53.47	—
TG Edunet Co., Ltd.	—	—	27.59	—
Others		2,099		1,280
		<u>20,196</u>		<u>23,136</u>
Money Market Funds:				
Dong Yang Investment Bank		—		34
Prudential Investment & Securities Co., Ltd.		—		145
		<u>—</u>		<u>179</u>
Investments in funds:				
Engineering Benevolent Association	0.03	₩ 14	0.03	₩ 14
KDBC Hanaro Interventure Fund	31.00	2,598	31.00	2,598
MIC99-7 Venture Investment Association		—		134
Korea Equipment Financial Cooperative		—		67
Information & Communication Financial Cooperative		32		16
Electric Contractors' Financial Cooperative		53		53
Korea Electric Engineers Association		24		24
Korea Specialty Contractor Financial Cooperative		20		50
		<u>2,741</u>		<u>2,956</u>
		<u>28,796</u>		<u>31,458</u>
Held-to-maturity securities:				
Government and municipal bond		18		11
G.P.S. Korea Inc.		2		2
		<u>20</u>		<u>13</u>
		<u>₩28,816</u>		<u>₩31,471</u>

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(2) Listed equity securities as of December 31, 2004 and 2005 are as follows (won in millions):

	2004		2005	
	Acquisition cost	Fair value	Acquisition cost	Fair value
LG Telecom Co., Ltd.	₩ 5,396	₩ 4,143	₩ —	₩ —
Netsecure Technology, Inc.	1,399	18	—	—
C.C.S., Inc.	4,740	1,698	4,740	3,842
Dong Bu Securities Co., Ltd.	—	—	201	1,345
	<u>₩ 11,535</u>	<u>₩ 5,859</u>	<u>₩ 4,941</u>	<u>₩ 5,187</u>

Above listed equity securities are recorded at market price and the difference between acquisition cost and fair value is accounted for as capital adjustments. However, when the listed equity securities' market price declined and is not expected to recover, the Company records the difference between market price and acquisition cost as impairment loss on long-term investment securities. The Company recorded ₩3,009 million of impairment loss on long-term investment securities (listed equity security) for the year ended December 31, 2005.

(3) Non-listed equity securities as of December 31, 2004 and 2005 are as follows (won in millions):

	2004			2005		
	Acquisition cost	Net asset value	Book value	Acquisition cost	Net asset value	Book value
Dreamline Corporation	₩ 39,530	₩18,837	₩16,935	₩ 39,530	₩18,165	₩16,935
Korea Information Assurance, Inc.	100	81	100	100	63	100
CCR Inc.	1,780	277	484	1,780	185	185
Dauinternet, Inc.	1,100	20	28	1,100	18	18
Korea Digital Cable Media Center	550	469	550	500	384	500
HeyAnita Korea Inc.	—	—	—	1,568	828	828
Saeronet Broadcasting Co., Ltd.	—	—	—	2,719	1,151	1,151
Powercomm Corporation	—	—	—	1,000	1,000	1,000
CJ Cablenet Haeundae-Kijjang Corp.	—	—	—	1,118	1,118	1,118
Rent House Co., Ltd.	—	—	—	420	21	21
Korea.com Communications Co., Ltd.	—	—	—	35,000	—	—
TG Edunet Co., Ltd	—	—	—	2,400	—	—
Others	8,172	1,351	2,099	13,204	1,150	1,280
	<u>₩ 51,232</u>	<u>₩21,035</u>	<u>₩20,196</u>	<u>₩100,439</u>	<u>₩24,083</u>	<u>₩23,136</u>

Non-listed equity securities of which net asset value declined and is not expected to recover were adjusted to net asset value or fair value, with the valuation loss on long-term investment securities charged to current operations.

The Company recorded ₩3,385 million, ₩2,539 million and ₩1,036 million of impairment loss on long-term investment securities (non-listed equity security) for the years ended December 31, 2003, 2004 and 2005, respectively.

CJ Cablenet Haeundae-Kijjang Corp. is subject to be accounted for using the equity method because the Company's ownership percentage is 20%, but is excluded from using the equity method because the Company's influence over the investee's operation is limited as majority shareholder of the investee holds 80% ownership.

Also, Rent House Co., Ltd. and TG Edunet Co., Ltd. are subject to be accounted for using the equity method the Company's ownership percentage is over 20%, but are excluded from using the equity method because the investee's operation is under court's control after bankruptcy.

In addition, Korea.com Communications Co., Ltd. is subject to be accounted for using the equity method and consolidated subsidiaries, but is excluded from using the equity method and consolidated subsidiaries because the Company can not actually exercise significant influence over the operating and financial policies of the investee according to legal management.

Furthermore, ownership percentage of the Company in Korea.com Communications Co., Ltd. is reduced to 0.96% after the reduction of capital (20:1) subsequent to consolidated balance sheet date.

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(4) Money market funds as of December 31, 2004 and 2005 are as follows (Won in millions):

	2004		2005	
	Acquisition cost	Book value	Acquisition cost	Book value
Dong Yang Investment Bank	₩ —	₩ —	₩ 29	₩ 34
Prudential Investment & Securities Co., Ltd.	—	—	134	145
	₩ —	₩ —	₩ 163	₩ 179

Above money market funds are recorded at market price and the difference between acquisition cost and fair value is accounted for as capital adjustments.

(5) Debt securities as of December 31, 2004 and 2005 are as follows (Won in millions):

	2004		2005	
	Acquisition cost	Book value	Acquisition cost	Book value
Government and municipal bonds:	₩ 18	₩ 18	₩ 11	₩ 11
Corporate bonds:				
G.P.S. Korea Inc.	2	2	2	2
	₩ 20	₩ 20	₩ 13	₩ 13

8. INVESTMENT SECURITIES USING THE EQUITY METHOD:

(1) The Company reclassified investment securities of Dreamline Corporation into long-term investment securities from investment securities using the equity method due to the decrease of ownership percentage to less than 20% as of December 31, 2004.

(2) Loss on valuation using the equity method for the year ended December 31, 2003 is as follows (won in millions):

2003	Acquisition cost	Net asset Value	Beginning of period	Loss on valuation using the equity method	Changes in consolidated subsidiaries	Capital adjustment	Book Value
Dreamline Corporation	₩ 39,530	₩24,894	₩ —	₩ (23,142)	₩ 41,272	₩(8,565)	₩9,565

9. LOANS TO EMPLOYEES:

Short-term and long-term loans to employees as of December 31, 2004 and 2005 are as follows (Won in millions):

	Interest per annum (%)	2004		2005	
		Short-term	Long-term	Short-term	Long-term
Loans to employees for stock purchase	—	₩ 4,486	₩ 8,634	₩ 8,087	₩ 1,742
Loans to employees for housing	2	1,524	8,450	1,409	7,210
Other	—	128	67	135	42
		6,138	17,151	9,631	8,994
Less: discount on present value		(149)	(2,495)	(366)	(1,361)
		₩ 5,989	₩14,656	₩ 9,265	₩ 7,633

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10. PROPERTY AND EQUIPMENT:

Changes in property and equipment for the years ended December 31, 2004 and 2005 are as follows (Won in millions):

2004:

	Beginning of year	Increase	Decrease	Changes in consolidated subsidiaries	End of year
Land	₩ 157,962	₩ 7,584	₩ —	₩ —	₩ 165,546
Buildings	304,749	7,999	177	—	312,571
Structures	246	—	—	—	246
Machinery	3,293,862	259,718	52,121	1,973	3,503,432
Vehicles	431	47	38	—	440
Other	47,009	8,107	9,831	1,150	46,435
Construction in progress	23,848	69,551	70,698	—	22,701
Machinery in transit	61	394	194	—	261
	<u>3,828,168</u>	<u>353,400</u>	<u>133,059</u>	<u>3,123</u>	<u>4,051,632</u>
Less: Accumulated depreciation					
Buildings	23,069	8,544	15	—	31,598
Structures	38	13	—	—	51
Machinery	1,228,566	408,119	24,102	273	1,612,856
Vehicles	198	202	38	—	362
Other	25,376	16,384	8,314	474	33,920
	<u>1,277,247</u>	<u>433,262</u>	<u>32,469</u>	<u>747</u>	<u>1,678,787</u>
	<u>₩2,550,921</u>				<u>₩2,372,845</u>

2005:

	Beginning of year	Increase	Decrease	Changes in consolidated subsidiaries	End of year
Land	₩ 165,546	₩ 1,234	₩ —	₩ 11,386	₩ 178,166
Buildings	312,571	4,847	—	15,894	333,312
Structures	246	—	—	(54)	192
Machinery	3,503,432	323,020	409,052	615,752	4,033,152
Vehicles	440	—	273	(134)	33
Other	46,435	5,983	19,919	6,990	39,489
Construction in progress	22,701	127,755	137,920	4,522	17,058
Machinery in transit	261	89	350	—	—
	<u>4,051,632</u>	<u>462,928</u>	<u>567,514</u>	<u>654,356</u>	<u>4,601,402</u>
Less: Accumulated depreciation					
Buildings	31,598	8,890	—	2,004	42,492
Structures	51	5	—	(31)	25
Machinery	1,612,856	469,988	339,016	449,162	2,192,990
Vehicles	362	—	273	(56)	33
Other	33,920	4,778	17,362	6,642	27,978
	<u>1,678,787</u>	<u>483,661</u>	<u>356,651</u>	<u>457,721</u>	<u>2,263,518</u>
	<u>₩2,372,845</u>				<u>₩2,337,884</u>

Depreciable assets are insured against fire and other casualty losses up to ₩2,301,912 million and ₩2,018,302 million as of December 31, 2004 and 2005, respectively.

The market value of the Company's land based on the official price of land (published by the Ministry of Construction and Traffic) is ₩180,809 million and ₩233,886 million as of December 31, 2004 and 2005, respectively.

The Company recorded ₩61,333 million, ₩20,726 million and ₩60,586 million of loss on disuse of property and equipment for the years ended December 31, 2003, 2004 and 2005, respectively, due to discontinuance of service, decrease of customer demands and deteriorations of certain machinery.

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11. LEASES:

- (1) The Company has operating lease agreements for the rights to use automobiles with Avis Rent A Car Co. The payment schedule for the operating leases is as follows (Won in millions):

Year	Amount
2006	₩ 623
2007	186
2008	23
	<u>₩ 832</u>

- (2) The Company also has capital lease agreements with Korea HP Financial Service Co., LG Card Services Corp., and Cisco Systems Capital Korea Ltd. for certain machinery and equipment. As of December 31, 2004 and 2005, the acquisition cost of machinery and equipment under capital leases was ₩175,336 million and ₩108,719 million, respectively, and depreciation expense related to these capital leases for the years ended December 31, 2003, 2004 and 2005 amounts to ₩20,071 million, ₩19,719 million and ₩13,590 million, respectively.

The Company early repaid a portion of capital leases and recorded ₩58 million of loss on early redemption of obligations under capital leases for the year ended December 31, 2005.

The future annual payments under these capital lease agreements as of December 31, 2005 are as follows (Won in millions):

Year	Amount		
	Principal	Interest	Total
2006	₩ 26,719	₩ 1,447	₩28,166
2007	12,271	323	12,594
2008	433	4	437
	<u>39,423</u>	<u>₩ 1,774</u>	<u>₩41,197</u>
Less: Current portion	(26,719)		
	<u>₩ 12,704</u>		

In relation to these lease agreements, the Company has provided one blank promissory note as collateral to LG Card Services Corp. (See Note 21).

12. INTANGIBLES:

- (1) Intangibles as of December 31, 2004 and 2005 are as follows (Won in millions):

2004:

	Acquisition cost	Amortization	Impairment	Book value
Goodwill	₩ 23,619	₩ 17,844	₩ —	₩ 5,775
Property rights of industry	172	125	—	47
Cable line usage rights	55,967	8,219	—	47,748
Land rights	78	16	—	62
Development costs	36,775	35,309	—	1,466
Other intangibles	2,184	931	86	1,167
	<u>₩ 118,795</u>	<u>₩ 62,444</u>	<u>₩ 86</u>	<u>₩56,265</u>

2005:

	Acquisition cost	Amortization	Impairment	Book value
Goodwill	₩ 136,704	₩ 14,851	₩ 79,168	₩ 42,685
Property rights of industry	161	142	—	19
Cable line usage rights	75,255	14,850	—	60,405
Land rights	78	20	—	58
Development costs	40,079	38,402	—	1,677
Other intangibles	6,101	1,546	559	3,996
	<u>₩ 258,378</u>	<u>₩ 69,811</u>	<u>₩ 79,727</u>	<u>₩108,840</u>

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(2) Changes in intangibles for the years ended December 31, 2004 and 2005 are as follows (Won in millions):

2004:

	Beginning of year	Acquisition	Amortization	Changes in consolidated subsidiaries	End of year
Goodwill	₩ 3,287	₩ 6,343	₩ 3,855	₩ —	₩ 5,775
Property rights of industry	15	1	22	53	47
Cable line usage rights	45,397	4,969	2,609	(9)	47,748
Land rights	66	—	4	—	62
Development costs	2,716	1,375	2,625	—	1,466
Other intangibles	—	347	323	1,143	1,167
	<u>₩51,481</u>	<u>₩ 13,035</u>	<u>₩ 9,438</u>	<u>₩ 1,187</u>	<u>₩ 56,265</u>

2005:

	Beginning of year	Acquisition	Amortization	Changes in consolidated subsidiaries	End of year
Goodwill	₩ 5,775	₩128,233	₩ 91,323	₩ —	₩ 42,685
Property rights of industry	47	2	26	(4)	19
Cable line usage rights	47,748	3,845	3,526	12,338	60,405
Land rights	62	—	4	—	58
Development costs	1,466	3,304	3,093	—	1,677
Other intangibles	1,167	3,918	1,089	—	3,996
	<u>₩56,265</u>	<u>₩139,302</u>	<u>₩ 99,061</u>	<u>₩ 12,334</u>	<u>₩108,840</u>

(3) The Company recorded ₩86 million and ₩79,641 million of impairment on intangibles for the years ended December 31, 2004 and 2005, respectively.

(4) ₩4,891 million, ₩3,960 million and ₩4,403 million of ordinary research and development costs were charged to expense as incurred for the years ended December 31, 2003, 2004 and 2005, respectively.

13. LONG-TERM DEBT AND DEBENTURES:

(1) Long-term debt in local currency as of December 31, 2004 and 2005 is as follows (Won in millions):

	Interest rate per annum (%)	Amount	
		2004	2005
Information promotion fund	—	₩ 66,651	₩ —
General loans	—	40,000	—
Syndication loans	6.36	102,304	79,847
		208,955	79,847
Less: Current portion		(66,756)	—
Discount on present value		(2,691)	(3,362)
		<u>₩139,508</u>	<u>₩76,485</u>

On April 18, 2002, the Company transferred the beneficiary certificates of ₩207,000 million for the trust amount of ₩ 226,800 million issued by Kookmin Bank to Hana Dream Limited Co. (“Hanadream”) in exchange for the right to receive certain of the Company’s future trade receivables, which are expected to be incurred from April 2002 to April 2004. Hanadream issued Asset Backed Loans (“ABL”) amounting to ₩ 207,000 million on April 25, 2002, of which the subordinate loan of ₩7,000 million was loaned by the Company and ₩ 200,000 million was loaned by the banks. The proceeds of ₩200,000 million were remitted to the Company. In relation to the issuance of ABL, the Company recognizes the difference between the trade receivables and the reduced long-term debt as interest expense. The ABL repayment was completed as of December 31, 2004 and ₩398 million was recorded as interest expense for the year ended December 31, 2004.

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(2) Long-term debt in foreign currency as of December 31, 2004 and 2005 is as follows (Won in millions, dollar in thousands):

	Interest rate per annum (%) 2005	U.S. dollars		Won equivalent	
		2004	2005	2004	2005
Syndication loans	6.18	\$258,568	\$201,809	₩267,618	₩202,718
Less: Current portion		—	(30,271)	—	(30,408)
Discount on present value		(7,703)	(3,798)	(7,972)	(3,816)
		<u>\$250,865</u>	<u>\$167,740</u>	<u>₩259,646</u>	<u>₩168,494</u>

The Company early repaid a portion of long-term debt and recorded ₩2,235 million of loss on early redemption of long-term debt for the year ended December 31, 2005.

(3) Debentures as of December 31, 2004 and 2005 are as follows (Won in millions):

	Interest rate per annum (%)	Due	Amount		
			2004 Won	2005 U.S. dollars Won equivalent	
19-2 nd	—	2002~2005	20,000	\$ —	—
20 th	—	2002~2005	100,000	—	—
21 st	—	2002~2005	170,000	—	—
23 rd	6.00	2003~2006	190,000	—	190,000
24 th	—	2003~2005	16,000	—	—
Foreign currency	7.00	2005~2012	—	500,000	502,250
			496,000	500,000	692,250
Less: Current portion			(306,000)	—	(190,000)
Discount on present value			(482)	(8,880)	(9,044)
			<u>₩ 189,518</u>	<u>\$ 491,120</u>	<u>₩ 493,206</u>

According to the covenants, debentures of 23rd require the Company to keep the debt ratio lower than 300 percent and the Company should not dispose of its property and equipment more than the ₩1,000 billion in each fiscal year. The Company complied with the covenants' requirements as of December 31, 2005.

As of December 31, 2005, for the warrants on the bonds with stock warrants ("13th debenture"), US\$ 62,000 thousand (15,322,680 shares) has been exercised and US\$ 38,000 thousand (9,391,320 shares) remains unexercised and exercisable until February 6, 2006.

The warrants on the bonds with stock warrants ("18th debenture") is US\$ 15,000 thousand (3,963,600 shares) and are exercisable until January 26, 2007. The exercise price per one share is ₩5,000 at an exchange rate of ₩1,321.20 to US\$1.00.

The Company early repaid a portion of debentures and recorded ₩308 million and ₩165 million of loss on early redemption of debentures for the years ended December 31, 2003 and 2005. Also, The Company recorded ₩870 million of gain on early redemption of debentures for the year ended December 31, 2003.

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- (4) The repayment schedule of debentures and long-term debt as of December 31, 2005 is as follows (Won in millions and dollar in thousands):

Year	Debentures in local currency	Debentures in foreign currency		Long-term debt in local currency	Long-term debt in foreign currency		Total
		U.S. Dollar	Won equivalent		U.S. Dollar	Won equivalent	
2006	₩190,000	\$ —	₩ —	₩ —	\$ 30,271	₩ 30,408	₩220,408
2007	—	—	—	19,163	80,724	81,087	100,250
2008	—	—	—	22,357	90,814	91,223	113,580
2009	—	—	—	25,551	—	—	25,551
2010	—	—	—	12,776	—	—	12,776
2012	—	500,000	502,250	—	—	—	502,250
	<u>₩190,000</u>	<u>\$500,000</u>	<u>₩502,250</u>	<u>₩ 79,847</u>	<u>\$201,809</u>	<u>₩202,718</u>	<u>₩974,815</u>

- (5) On April 21, 2005, the Company entered into a syndicated loan agreement with Development Bank of Singapore, JP Morgan Chase, Deutsche Bank, Korea Development Bank and other financial institutions. The loan agreement approximates ₩720 billion (Won currency loan of ₩310,048 million and US\$ currency loan of US\$ 409,952 thousand), which includes a term loan of ₩660 billion with a maturity of five years and a revolving loan of ₩60 billion. The outstanding balance of this syndicated loan as of December 31, 2005 is ₩282,564 million (long-term debt in local currency of ₩79,847 million and long-term debt in foreign currency of ₩202,718 million).
- (6) In relation to the above syndicated loan up to ₩720 billion, the Company's buildings are pledged as collateral up to ₩542,799 million; machinery of which book value is ₩1,702,960 million as of September 30, 2004 are provided as assignable mortgage and some intellectual property rights are pledged as collateral.

14. ASSET BACKED SECURITIES PAYABLE:

In October 2001, the Company transferred the beneficiary certificates of ₩309,000 million for the trust amount of ₩341,000 million issued by a trustee bank to Hanafos Securitization Speciality Co., Ltd. ("Hanafos") in exchange for the right to receive certain of the Company's future trade receivables, which are expected to be incurred from October 2001 to April 2004. Hanafos then issued Asset Backed Securities ("ABS") amounting to ₩309,000 million on October 31, 2001 and the ABS repayment was completed as of December 31, 2004 and ₩9,028 million and ₩490 million were recorded as asset backed securities payable expense for the years ended December 31, 2003 and 2004, respectively.

15. DERIVATIVES:

(1) Swap Contract

With reference to the Company's issuance of the syndication loan in foreign currency, the Company entered into swap contracts (fixed interest rate) with Korea Development Bank (KDB) to hedge the risk of floating interest rates. In relation to the valuation of these swap contracts, the Company recorded ₩17,623 million and ₩1,859 million of valuation loss as capital adjustments and liabilities as of December 31, 2004 and 2005, respectively. The outstanding swap contracts as of December 31, 2005 are as follows (Won in millions and dollar in thousands):

Financial institution	Contract period	Floating rate (%)	Fixed rate (%)	Contract amount	Valuation loss on interest swap	
					2004	2005
IBK	2002.5~2005.5	Government bond rate+1.95	9.90	₩ 100,000	₩ 1,496	₩ —
KDB	2003.12~2008.11	LIBOR+3.25	7.72	\$ 63,065	4,556	691
KDB etc	2004.2~2008.11	LIBOR+3.25	7.60	\$ 138,744	9,325	1,168
KDB etc	2004.9~2008.11	LIBOR+3.25	6.70	\$ 56,759	2,246	—
					<u>₩17,623</u>	<u>₩1,859</u>

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(2) Forward Exchange Contract

The Company entered into foreign currency forward contracts, relating to debentures and syndicated loan in foreign currency, with Development Bank of Singapore (DBS) and Korea Development Bank (KDB) to hedge the exposure to changes in the foreign currency exchange rate. The Company recorded ₩33,975 and ₩19,842 million of loss on forward exchange valuation for the years ended December 31, 2004 and 2005 and ₩33,802 million and ₩47,420 million of forward exchange contracts (current liabilities) as of December 31, 2004 and 2005, respectively (Dollar in thousands).

Contract period	Fixed exchange rate	Contract amount
2003.12~2008.11	1,190.00	\$ 63,065
2004.2~2008.11	1,166.20	138,744
2005.2~2012.2	1,026.5~1,035.0	500,000
		<u>\$ 701,809</u>

Also, the Company recorded ₩343 million and ₩242 million of gain on transaction of forward exchange contract for the years ended December 31, 2003 and 2004, respectively, and ₩173 million of loss on transaction of forward exchange contract for the year ended December 31, 2004.

16. SHAREHOLDERS' EQUITY:

The Company has authorized 700,000,000 shares of ₩5,000 par value, of which 462,135,180 shares have been issued as of December 31, 2005.

17. STOCK OPTION PLAN:

The Company entered into stock option agreements with the Chief Executive Officer, senior managers and employees of the Company. The details of the stock options granted as of December 31, 2005 are as follows (Won in millions):

Grant company	Grant date	Number of shares	Exercise price/share	Methods	Exercise period
hanarotelecom incorporated	1999. 3. 1	50,000	₩ 5,630	New stock issue	2002.3.1~2007.2.28
	1999.10. 1	120,000	19,910	New stock issue	2002.10.1~2007.9.30
	2000. 3.17	1,413,591	17,750	New stock issue	2003.3.18~2008.3.17
	2004.12.16	19,772,890	5,000	New stock issue or cash payment	2006.12.17~2011.12.16
Hanaro Dream, Inc.	2005.3.25	610,000	5,000	New stock issue or cash payment	2007.3.26~2012.3.25
	2003.1.16	30,000	8,000	New stock issue	2005.1.16~2007.1.15

The Company values stock options granted in 2004 and 2005 using the fair value method (binomial option-pricing model) and in relation to the stock options granted in 2000, the Company values stock options granted based on the minimum value method (See Note 2). Total compensation expense of ₩16,872 million was allocated over the vesting period, and the compensation expense charged to operations for the years ended December 31, 2003, 2004 and 2005 was ₩1,375 million, ₩1,278 million and ₩4,238 million, respectively and ₩7,227 million and ₩11,465 million was recorded as capital adjustments as of December 31, 2004 and 2005, respectively. Also, in relation to the stock options granted in 1999, the Company did not recognize compensation expense, which was calculated as the difference between the stock price at year-end and the exercise price multiplied by the number of stock options, due to downward movement of the stock price.

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The schedule of compensation expense for the stock options as of December 31, 2005 is as follows (Won in millions):

Year	Amount
Carried forward from prior period	₩ 7,227
2005.1 ~ 2005.12	4,238
2006.1 ~ 2006.12	3,774
2007.1 ~ 2007.12	1,593
2008.1 ~ 2008.12	35
2009.1 ~ 2009.12	5
	<u>₩16,872</u>

The principal assumptions in relation to estimation of the stock compensation expense are as follows:

	Granted in 2000	Granted in 2004	Granted in 2005
Risk-free interest rate (%)	9.0	3.35 ~ 3.43	4.11 ~ 4.38
Expected lives (years)	3 ~ 7	2 ~ 3	2 ~ 4
Expected forfeitures per year (%)	3.0	2.09	2.09
Volatility (%)	—	53.8 ~ 85.7	34.3 ~ 50.4
Weighted-average exercise price (won)	₩ 17,750	₩ 5,000	₩ 5,000
Weighted-average fair value (won)	₩ —	₩ 457	₩ 385

Had the compensation cost for the Company's stock option plans, which were granted in 2000, been determined based on the fair value method at the grant dates for awards, the Company's ordinary income (loss), net income (loss), ordinary income (loss) per share and net income (loss) per share would have been reduced (increased) as follows (Won in millions, except per share amount):

	2003	2004	2005
Ordinary income (loss)	₩(162,657)	₩12,695	₩(192,489)
Net income (loss)	₩(163,044)	₩11,893	₩(210,020)
Ordinary income (loss) per share	₩ (506)	₩ 27	₩ (417)
Net income (loss) per share	₩ (507)	₩ 26	₩ (455)

The fair value of the option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000: dividend yield of nil, expected volatility of 93.8 percent, risk-free interest rate of 9.0 percent, expected exercise lives of 3 to 7 years and expected forfeitures per year of 3%. Total compensation cost based on the fair value method was calculated as ₩18,389 million.

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18. OPERATING EXPENSES:

Significant accounts of operating expenses for the years ended December 31, 2003, 2004 and 2005 are as follows (won in millions):

	2003	2004	2005
Salaries and wages	₩ 92,370	₩ 103,030	₩ 122,839
Provision for severance indemnities	13,444	14,095	14,918
Welfare	19,380	24,994	25,971
Rent	14,746	6,075	9,339
Taxes and dues	8,272	7,449	8,245
Depreciation	428,528	442,312	498,087
Advertising	27,457	39,514	30,110
Ordinary research and development cost	4,891	3,960	4,403
Utilities	19,487	22,023	26,800
Telecommunication equipment lease expenses	165,716	140,820	164,439
Bad debt	25,744	29,933	19,065
Maintenance	42,583	51,451	59,255
Selling expenses	6,408	6,791	10,821
Sales commissions	195,997	178,380	249,740
Interconnection charges	131,114	141,964	164,677
Commissions	70,859	68,460	84,618
Outsourcing services	20,519	24,722	30,816
Other	25,277	29,666	26,680
	<u>₩1,312,792</u>	<u>₩1,335,639</u>	<u>₩1,550,823</u>

19. INCOME TAX EXPENSE AND DEFERRED INCOME TAXES:

Income Tax Expense

The statutory corporate income tax rate (including resident surtax) applicable to the Company is approximately 29.7%, 29.7% and 27.5% in 2003, 2004 and 2005, respectively. Income tax is calculated as follows (won in millions):

	2003	2004	2005
Income taxes currently payable	₩ 341	₩ 806	₩ 245
Changes in temporary differences	(39)	(311)	189
Income tax expense	<u>₩ 302</u>	<u>₩ 495</u>	<u>₩ 434</u>

Deferred Income Taxes

Deferred income taxes reflect the tax effects on prior years' tax losses, tax credits, and temporary differences between the carrying amount of assets and liabilities for financial accounting purposes and the amounts used for income tax purposes.

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Accumulated temporary differences and deferred taxes as of December 31, 2004 and 2005 are as follows (Won in millions):

	Amount	
	2004	2005
Accrued severance indemnities	₩ 22,154	₩ 26,402
Bad debts	59,500	96,789
Present value discount	2,918	2,387
Impairment loss on long-term investment securities	39,489	96,183
Accrued expenses	—	22,690
Loss on disuse of property and equipment	13,840	41,800
Loss on valuation of forward exchange contract	33,975	19,842
Depreciation	1	48,771
Impairment loss on intangibles	—	1,109
Unearned income	(2,067)	(758)
Valuation gain on available-for-sale securities, net	—	(3,184)
Present value discount	(10,663)	(11,022)
Loss on foreign currency translation	—	(5,887)
Severance insurance deposits and other	(4,665)	(2,710)
	154,482	332,412
Loss carryforward	703,695	1,289,173
Less: Temporary differences excluded	(855,970)	(1,620,949)
	2,207	636
Tax rate (%)	27.5%	27.5%
Deferred income tax assets, net	₩ 607	₩ 175

The Company(excluding subsidiary) did not recognize deferred income tax assets for temporary differences due to the uncertainty of future realization of the deferred tax benefits of ₩855,970 million and ₩1,620,949 million as of December 31, 2004 and 2005, respectively.

20. RELATED PARTY TRANSACTIONS:

(1) Significant transactions and outstanding balances with subsidiaries for the years ended and as of December 31, 2004 and 2005 are as follows (Won in millions):

2004			Receivables		Payables	
	Revenue	Expenses	Key-money deposits	Accounts Receivables	Trade payables	Accrued expenses
Hanaro Realty Development & Management Co., Ltd.	₩ 183	₩ 19,181	₩ 1,409	₩ 142	₩ 433	₩ 366
Hanaro Telephone & Internet Information, Inc.	13	34,457	—	—	188	3,047
Hanaro Web(n)TV	155	3,980	98	129	176	—
Hanaro Telecom America, Inc.	—	512	—	—	—	—
HanaroDream Inc.	3,300	14,438	—	636	2,360	1,300
	₩3,651	₩ 72,568	₩ 1,507	₩ 907	₩3,157	₩4,713

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			Receivables		Payables	
	Revenue	Expenses	Key-money deposits	Accounts Receivables	Trade payables	Accrued expenses
Hanaro Realty Development & Management Co., Ltd.	₩ 165	₩ 20,568	₩ 509	₩ 142	₩ 339	₩ 398
Hanaro Telephone & Internet Information, Inc.	18	35,194	—	—	—	2,939
Korea Thrunet Co., Ltd.	13,352	4,126	—	6,837	1,339	626
HanaroDream Inc.	5,361	27,507	—	624	821	1,448
	<u>₩ 18,896</u>	<u>₩ 87,395</u>	<u>₩ 509</u>	<u>₩ 7,603</u>	<u>₩2,499</u>	<u>₩5,411</u>

(2) Transactions with shareholders for the years ended December 31, 2004 and 2005 are as follows (won in millions):

Revenues:

	Transaction	2004	2005
Samsung	Service fee	₩ 45	₩ —
Dacom Corporation	"	18,472	15,656
SK Telecom	"	12,844	20,581
LG	"	3,058	4,090
		<u>₩34,419</u>	<u>₩40,327</u>

Purchases:

	Transaction	2004	2005
Samsung	Purchase of machinery and equipment, other	₩ 10,789	₩ —
Dacom Corporation	Interconnection charges, other	25,896	15,780
SK Telecom	Interconnection charges, other	42,367	45,530
LG	Purchase of machinery and equipment, other	24,853	26,346
		<u>₩ 103,905</u>	<u>₩ 87,656</u>

Balances with shareholders as of December 31, 2004 and 2005 are as follows (won in millions):

	Assets		Liabilities	
	2004	2005	2004	2005
Samsung	₩ —	₩ —	₩ 7,784	₩ —
Dacom Corporation	783	530	1,015	447
SK Telecom	2,457	4,237	8,186	7,496
LG	288	666	12,064	7,342
	<u>₩3,528</u>	<u>₩5,433</u>	<u>₩29,049</u>	<u>₩15,285</u>

21. COMMITMENTS AND CONTINGENCIES:

- (1) The Company has been provided US\$ 100 thousand, as a maximum, of payment guarantees by the Korea Exchange Bank in connection with the international telephone service arrangement contract with SingTel.
- (2) The Company has been provided US\$ 1,000 thousand of payment guarantees by the National Agriculture Cooperative Federation in connection with the issuance of letters of credit.
- (3) The Company has provided one blank promissory note as collateral to LG Card Services Corp. in connection with its lease agreements (See Note 11).

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(4) The Company has entered into the network supply agreements for the right to use various underground facilities to house its fiber-optic cable network, leased lines, telecommunication equipments with Seoul Metropolitan Subway Corporation, Seoul Metropolitan Rapid Transit Corp., Powercomm Corp., Dacom Corp., Korea Electric Power Corporation, Dreamline Corp. and others, and the related rental expenditure is recorded as telecommunication equipment lease expenses.

(5) The Company has to comply with the covenants' requirements in relation to its debentures (See Note 13).

22. SUPPLEMENTARY INFORMATION FOR COMPUTATION OF VALUE ADDED:

The accounts and amounts needed for calculation of value added for the years ended December 31, 2003, 2004 and 2005 are as follows (Won in millions):

	2003	2004	2005
Ordinary income (loss)	₩ (160,912)	₩ 13,849	₩ (191,787)
Salaries and wages	92,370	103,030	122,839
Provisions for severance indemnities	13,444	14,095	14,918
Employee benefits	19,380	24,994	25,971
Interest, net	120,865	82,386	82,177
Rent	14,746	6,075	9,339
Taxes and dues	8,272	7,449	8,245
Depreciation	428,528	442,312	498,087
	<u>₩ 536,693</u>	<u>₩694,190</u>	<u>₩ 569,789</u>

23. LITIGATIONS:

As of December 31, 2005, the Company is a defendant in 12 lawsuits claiming damages for payments amounting to ₩3,131 million and is a plaintiff in 5 lawsuits claiming for payments amounting to ₩24,026 million. The final outcome of the above lawsuits cannot presently be determined. However, management believes that the ultimate disposition of those litigations will not have a materially adverse impact on the operations or financial position of the Company.

24. SEGMENT INFORMATION:

The Company's reportable segments are strategic business units that offer different products and services. The segments are managed separately based on the difference in products and services, technology and marketing strategies. The Company has three reportable operating segments; voice services, lease line and broadband services. Voice services include all services provided to fixed line customers, including local services. Lease line services consist of the leasing of dedicated fiber optic lines over which customers transmit voice and data. Broadband services include high-speed data transmission services over Asymmetrical Digital Subscriber Line (ADSL), hybrid fiber coaxial (HFC) cable lines and internet access services. The operations of all other operating segments, which fall below the reporting thresholds, are included in the other segment below and include entities providing real estate management services and customer services. The accounting policies of the segments are the same as those described in Note 2.

Segment informations for the years ended December 31, 2003, 2004 and 2005 are as follows (won in millions):

2003	Voice	Leased Line	Broadband	Others	Total
Revenue	₩248,964	₩37,992	₩ 982,693	₩113,837	₩1,383,486
Operating income (loss)	(8,577)	4,986	118,937	(44,652)	70,694
Tangible and intangible assets	558,446	16,652	1,743,778	283,526	2,602,402
Capital expenditures and advanced payments for property and equipment	56,581	6,064	245,711	42,603	350,959
Depreciation and amortization	60,298	5,657	315,208	47,365	428,528

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2004	Voice	Leased Line	Broadband	Others	Total
Revenue	₩291,186	₩39,717	₩ 985,428	₩133,238	₩1,449,569
Operating income (loss)	(23,552)	2,775	150,978	(16,271)	113,930
Tangible and intangible assets	452,215	66,963	1,627,321	282,611	2,429,110
Capital expenditures and advanced payments for property and equipment	48,392	10,042	208,122	28,113	294,669
Depreciation and amortization	49,710	8,889	323,676	60,037	442,312
2005	Voice	Leased Line	Broadband	Others	Total
Revenue	₩375,253	₩44,255	₩1,074,387	₩ 95,450	₩1,589,345
Operating income (loss)	(76,581)	(2,376)	125,147	(7,668)	38,522
Tangible and intangible assets	581,981	65,482	1,638,395	160,866	2,446,724
Capital expenditures and advanced payments for property and equipment	194,393	3,416	135,976	7,711	341,496
Depreciation and amortization	96,696	12,371	347,410	41,610	498,087

Capital expenditures and advanced payments for property and equipment include increase of property and equipment by capital lease obligation, which is ₩98,230 million and ₩37,731 million for the years ended December 31, 2003 and 2004, respectively.

25. EXTRAORDINARY ITEMS:

At the board of directors' meeting held on September 14, 2005, hanaro resolved to merge with Korea Thrunet Co., Ltd. on January 1, 2006. Accordingly, the network unification of hanaro and Korea Thrunet Co., Ltd. is in progress and accounted for the expenses occurred in relation to this unification as extraordinary item, which amount to ₩14,119 million for the year ended December 31, 2005. Also, impairment loss on property and equipment is accounted as extraordinary item, which amount to ₩4,899 million for the year ended December 31, 2005.

26. MERGER

Effective January 1, 2006, Korea Thrunet Co., Ltd., the Company's affiliate, was merged into the Company. Details of the merger are as follows:

(1) Purpose of the merger

The Company merged Korea Thrunet Co., Ltd., which is engaged in broadband internet access services, to maximize its business value by strengthening its competitiveness, taking advantage of the synergy effect and concentrating its business resources.

(2) General information of the merger

	hanarotelecom	Korea Thrunet
Date of establishment	September 26, 1997	July 30, 1996
Chief executive officer	Soon-Yub Kwon	Soon-Yub Kwon
Location	Yoido-dong, Youngdeungpo, Seoul	Yoido-dong, Youngdeungpo, Seoul
Type of the company	Public company (listed in KOSDAQ)	Non-listed company
Number of outstanding shares	462,135,180 shares	103,134,426 shares
Capital stock	₩2,310,676 million	₩257,836 million
Closing date	December 31	December 31
Number of investment shares	—	99,240,000 shares
Ownership percentage	—	96.22%
Status	Surviving company	Extinct company

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(3) The method of the merger

The Company merged with Korea Thrunet Co., Ltd. through a more convenient method ('small business merger'), allowed by the Commercial law in the Republic of Korea.

(4) Exchange ratio of Korea Thrunet Co., Ltd.'s stock

The stock exchange ratio of the Company and Korea Thrunet Co., Ltd. in the merger was determined by ratio of the asset value of the Company and appraisal value of Korea Thrunet Co., Ltd. based on the tax code.

	hanarotelecom	Korea Thrunet
Asset value (appraisal value)	₩3,826	₩ 1,366
Exchange rate of stock	1	0.3570308
Face value of the stock	₩5,000	₩ 2,500

(5) The schedule of the merger

- (1) Contract date of company valuation: September 5, 2005
- (2) Resolution date of board of directors' meeting: September 14, 2005
- (3) Date of merger contract: September 22, 2005
- (4) Submission date of merger application: September 14, 2005
- (5) Confirm date of shareholders for general meeting of shareholders for approving the merger: September 7, 2005
- (6) Shareholders meeting date for approving the merger: November 7, 2005
- (7) Effective date of the merger: January 1, 2006
- (8) Registration date of merger: January 9, 2006
- (9) Listing date of newly issued shares: January 18, 2006

(6) Newly issued stocks and grant for the merger are as follows (Won in millions):

	New stock	Grant
New stock (shares)	1,217,832	—
Increase of common stock	₩ 6,089	—

(7) Accounting method of the merger

The Company accounted for Korea Thrunet Co., Ltd.'s net asset value as its fair value, according to "Accounting Standards for Consolidated Financial Statements".

Details of goodwill are as follows (Won in millions):

	Amount
Fair value of net assets	₩126,666
Cost of purchasing	249,221
Goodwill	₩122,555

The Company has acquired 99,240,000 shares of Korea Thrunet Co., Ltd.'s common stock with the ownership percentage of 96.22% on June 3, 2005. However, the Company's control over Korea Thrunet Co., Ltd. was obtained on June 23, 2005 with the formal declaration of the end of corporate reorganization proceedings on that date and valued Korea Thrunet Co., Ltd.'s net asset value as of June 30, 2005, which is the designated effective date. Management does not believe the net income effect from June 23, 2005 through June 30, 2005 is material.

The purchase price of KRW 249,221 million was allocated as follows (Won in millions):

	Amount
Current assets	₩ 167,030
Tangibles	190,479
Goodwill	122,555
Other assets	28,780
Total assets acquired	₩ 508,844
Total liabilities assumed	(259,623)
Net assets acquired	₩ 249,221

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All goodwill acquired are allocated to broadband services as the main business of Thrunet was providing of broadband service.

(8) Summarized financial statements of hanarotelecom and Korea Thrunet

Summarized financial statements of hanarotelecom and Korea Thrunet Co., Ltd. for the years ended and as of December 31, 2004 and 2005 are as follows (Won in millions):

Summarized balance sheets

(As of December 31, 2004)

	hanarotelecom	Korea Thrunet
Current assets:		
Quick assets	₩ 609,293	₩ 149,348
Inventories	1,841	—
	<u>611,134</u>	<u>149,348</u>
Non-current assets:		
Investments	144,348	17,389
Tangible assets	2,362,686	233,596
Intangible assets	54,266	14,383
	<u>2,561,300</u>	<u>265,368</u>
Total assets	<u>₩3,172,434</u>	<u>₩ 414,716</u>
Current liabilities	₩ 737,081	₩ 94,525
Long-term liabilities	687,140	401,492
Total liabilities	<u>1,424,221</u>	<u>496,017</u>
Capital stock	2,310,676	19,507
Paid-in capital in excess of par value	344,642	388,578
Accumulated deficit	(891,264)	(489,472)
Capital adjustments	(15,841)	86
Total shareholders' equity	<u>1,748,213</u>	<u>(81,301)</u>
Total liabilities & shareholders' equity	<u>₩3,172,434</u>	<u>₩ 414,716</u>

Summarized balance sheets

(As of December 31, 2005)

	hanarotelecom	Korea Thrunet
Current assets:		
Quick assets	₩ 343,654	₩ 102,292
Inventories	116	—
	<u>343,770</u>	<u>102,292</u>
Non-current assets:		
Investments	384,881	12,849
Tangible assets	2,188,805	141,807
Intangible assets	62,645	12,493
	<u>2,636,331</u>	<u>167,149</u>
Total assets	<u>₩ 2,980,101</u>	<u>₩ 269,441</u>
Current liabilities	₩ 595,691	₩ 47,734
Long-term liabilities	816,823	145,354
Total liabilities	<u>1,412,514</u>	<u>193,088</u>
Capital stock	2,310,676	257,836
Paid-in capital in excess of par value	344,642	397,146
Accumulated deficit	(1,100,104)	(579,325)
Capital adjustments	12,373	696
Total shareholders' equity	<u>1,567,587</u>	<u>76,353</u>
Total liabilities & shareholders' equity	<u>₩ 2,980,101</u>	<u>₩ 269,441</u>

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Summarized statements of operations

(For the year ended December 31, 2004)

	hanarotelecom	Korea Thrunet
Operating revenue	₩1,436,485	₩ 349,772
Operating expenses	1,322,464	346,927
Operating income	114,021	2,845
Non-operating income	61,903	30,724
Non-operating expenses	(165,431)	(107,642)
Ordinary income (loss)	10,493	(74,073)
Extraordinary items	—	153,403
Income before income tax	10,493	79,330
Income tax expense	—	—
Net income	<u>₩ 10,493</u>	<u>₩ 79,330</u>

Summarized statements of operations

(For the year ended December 31, 2005)

	hanarotelecom	Korea Thrunet
Operating revenue	₩1,444,411	₩ 298,411
Operating expenses	1,391,183	315,305
Operating income (loss)	53,228	(16,894)
Non-operating income	92,457	22,146
Non-operating expenses	(348,377)	(82,235)
Ordinary loss	(202,692)	(76,983)
Extraordinary items	(6,148)	(12,870)
Loss before income tax	(208,840)	(89,853)
Income tax expense	—	—
Net loss	<u>₩ (208,840)</u>	<u>₩ (89,853)</u>

27. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE:

- (1) At the board of directors' meeting on January 31, 2006, the Company resolved to acquire the Celrun TV's stocks for ₩5,500 million (780,000 shares, 65% of ownership), and acquired in March.
- (2) At the board of directors' meeting on February 8, 2006, the Company resolved to issue 26th local debentures of ₩ 100,000 million for the refinancing of current debt, and issued in February.
- (3) At the board of directors' meeting on February 22, 2006, the Company declared equal (2:1) capital reduction to improve financial structure with the effective date on May 2, 2006.
- (4) At the board of directors' meeting on February 22, 2006, the Company resolved to have its stocks in United States of America delisted as the average daily trading volume of its stocks in NASDAQ has become so low.

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28. RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES:

Accounting practices used by the Company in preparing the accompanying financial statements conform with accounting principles generally accepted in the Republic of Korea (“Korean GAAP”), but do not conform with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The significant differences applicable to the Company are described below. Other differences do not have a significant effect on either net income (loss) or shareholders’ equity.

(1) Consolidation of Special-Purpose Entities (“SPE”)

Under Korean GAAP, Hanafos and Hanadream, the SPEs described in Notes 13(1) and 14, are excluded from the consolidation as hanaro does not have control over the SPEs’ management and operations.

Under U.S. GAAP, the operations of Hanafos and Hanadream are included in the consolidation of the Company in accordance with Statement of Financial Accounting Standards (“SFAS”) No.140- “Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities” since the asset transfers were not qualified as a true sale.

Hanafos and Hanadream were liquidated during 2004 and summarized financial information of Hanafos and Hanadream as of and for the year ended December 31, 2003 is as follows (won in millions):

Current assets	₩ 42,314
Non-current assets	58,201
Total assets	<u>₩100,515</u>
Current liabilities	₩ 86,104
Non-current liabilities	17,417
Total liabilities	<u>₩103,521</u>
Net assets	<u>₩ (3,006)</u>
Operating revenue	₩ 15,742
Operating income	(2,566)
Net loss	(1,697)

(2) Licensing Cost

In August 1997, the Company’s shareholders (members of the Consortium Agreement) collectively paid ₩45,000 million to the Ministry of Information and Communication (“MIC”) representing a one-time charge to obtain a perpetual license to provide fixed-link local telephone service on a nationwide basis in Korea. Under Korean GAAP, such fees paid by the major shareholders on behalf of the Company are not required to be recorded. Under U.S. GAAP, such transaction is a capital contribution by the shareholders. Under U.S. GAAP, the license was capitalized as an intangible asset and amortized over its estimated economic useful life of 20 years. In connection with the adoption of SFAS No. 142 [See Note 28(6)], licensing cost is deemed to have an indefinite life. A deferred tax liability calculated using the Company’s statutory income tax rate of 27.5% has also been recorded, as the license asset has no tax basis to the Company.

The Company understands that an entity’s estimate of the useful life of an intangible asset shall be based on an analysis of all pertinent factors, in particular: (a) the expected use of the asset by the entity, (b) the intangible asset may relate, (c) any legal, regulatory, or contractual provisions that may limit the useful life, (d) any legal, regulatory, or contractual provisions that enable renewal or extension of the asset’s legal or contractual life without substantial cost, (e) level of maintenance expenditures required to obtain the expected future cash flows from the asset.

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Under the Korean Telecommunications Business Law, the telecommunications services that Network Service Providers, which are facilities-based telecommunications service providers, may provide are restricted to those for which they have received a license from the Ministry of Information and Communication ("MIC"). In October 1997, the Company received a perpetual license to provide fixed-link local telephone service on a nationwide basis in Korea. Such license does not need to be renewed. The formal document from the Minister of the MIC that granted the license to the Company sets forth the conditions under which the license would be revoked, which consist of the following:

(a) failure to make payment of information promotion fund, (b) supplement of personnel from small business entities. The Company has no reason to believe that any of these conditions would be applicable to the Company.

(3) Interest Capitalization

As explained in Note 2, under Korean GAAP, starting from January 1, 2003, interest expense is no longer capitalized. However, under U. S. GAAP, the Company's policy is to capitalize interest in the amount that would have theoretically been avoided had expenditures not been made for assets which require a period of time to get them ready for their intended uses.

(4) Investment Securities

Information included in short-term and long-term investment securities as of December 31, 2004 and 2005 is as follows:

	Korean won							Fair value
	Acquisition cost	Unrealized gains		Unrealized losses		Impaired losses		
		Over 12 months	Under 12 months	Over 12 months	Under 12 months	Over 12 months	Under 12 months	
(In millions)								
2004:								
(1) Short-term investment securities								
Debt securities	<u>₩ 1,571</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ 450</u>	<u>₩ 1,121</u>
	<u>1,571</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>450</u>	<u>1,121</u>
(2) Long-term investment securities								
Available-for-sale securities								
Listed	11,535	—	82	5,758	—	—	—	5,859
Non-listed	51,232	—	—	—	—	28,497	2,539	20,196
Other	2,741	—	—	—	—	—	—	2,741
	<u>65,508</u>	<u>—</u>	<u>82</u>	<u>5,758</u>	<u>—</u>	<u>28,497</u>	<u>2,539</u>	<u>28,796</u>
Debt securities	20	—	—	—	—	—	—	20
	<u>65,528</u>	<u>—</u>	<u>82</u>	<u>5,758</u>	<u>—</u>	<u>28,497</u>	<u>2,539</u>	<u>28,816</u>
	<u>₩ 67,099</u>	<u>₩ —</u>	<u>₩ 82</u>	<u>₩ 5,758</u>	<u>₩ —</u>	<u>₩ 28,497</u>	<u>₩ 2,989</u>	<u>₩ 29,937</u>
2005:								
(1) Short-term investment securities								
Debt securities	<u>₩ 1,120</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ 1,120</u>	<u>₩ —</u>
	<u>1,120</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,120</u>	<u>—</u>
(2) Long-term investment securities								
Available-for-sale securities								
Listed	4,941	164	82	—	—	—	—	5,187
Non-listed	100,439	—	—	—	—	76,267	1,036	23,136
MMF	163	—	16	—	—	—	—	179
Other	2,956	—	—	—	—	—	—	2,956
	<u>108,499</u>	<u>164</u>	<u>98</u>	<u>—</u>	<u>—</u>	<u>76,267</u>	<u>1,036</u>	<u>31,458</u>
Debt securities	13	—	—	—	—	—	—	13
	<u>108,512</u>	<u>164</u>	<u>98</u>	<u>—</u>	<u>—</u>	<u>76,267</u>	<u>1,036</u>	<u>31,471</u>
	<u>₩ 109,632</u>	<u>₩ 164</u>	<u>₩ 98</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ 76,267</u>	<u>₩ 2,156</u>	<u>₩ 31,471</u>

Under U.S. GAAP, if the decline in fair value is judged to be other than temporary, the cost basis of the individual securities is written down to fair value as a new cost basis and the amount of the write-down is included in current earnings. Other than temporary impairment is determined based on evidence-based judgment about a recovery of fair value up to (or beyond) the cost of investment by considering the severity and duration of the impairment in relation to forecasted recovery of fair value. Under Korean GAAP, if the collectible value from the securities is less than acquisition costs with objective evidence of impairment such as bankruptcy of investees, an impairment loss is recognized. In addition, the duration of the impairment in relation to the forecasted recovery of fair value is not considered for Korean GAAP purposes. Due to such differences, for U.S. GAAP purpose, losses on impairment of investment securities for the year ended December 31, 2005 increased by KRW 3,009 million, when compared to that under Korean GAAP.

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(5) Development Costs

Development costs are deferred under Korean GAAP. Under U.S.GAAP, development costs are charged to expenses when incurred and are classified as operating expenses.

(6) Goodwill and Other Intangibles

Under Korean GAAP, all intangibles including goodwill are amortized over their estimated useful lives and an impairment loss is recognized when their carrying amount exceeds their fair value.

Under U.S. GAAP, following the introduction of SFAS No. 142- "Goodwill and Intangible Assets", intangible assets with finite lives continue to be amortized over their useful economic lives. Goodwill and intangible assets with indefinite lives are not amortized, but tested for impairment, at least annually, in accordance with SFAS No.142.

The Company's intangible assets with finite lives and intangible assets with indefinite lives including goodwill explained in Note 12 as of December 31, 2004 and 2005 are as follows:

Intangible assets with finite lives	Property rights of industry Cable line usage rights Land right Other
Intangible assets with indefinite lives	Goodwill Licensing cost [see Note 28(2)]

Under Korean GAAP, goodwill, which represents the excess of the acquisition cost over the fair value of net identifiable assets acquired, is amortized on a straight line basis over its estimated useful life, up to 40 years, and an impairment loss is recognized immediately when it is no longer probable that goodwill will be recovered from expected future economic benefits or its carrying amount exceeds its fair value. All intangibles are amortized over their estimated useful lives and an impairment loss is recognized when their carrying amount exceeds their fair value.

Under US GAAP, in accordance with SFAS No. 142, intangible assets with finite lives continue to be amortized over their useful economic lives. Goodwill and intangible assets with indefinite lives are not amortized, but tested for impairment at least once a year.

In compliance with SFAS No. 142, the Company has adopted a two-step test for goodwill impairment. In the first step of the test, which identifies potential impairment, the Company compares the fair value of a reporting unit with its carrying amount. If the carrying amount exceeds the fair value, the Company performs the second step of the test, which measures the amount of impairment loss, by comparing the impaired fair value of reporting unit goodwill with the carrying amount. If the carrying amount exceeds the implied fair value of that goodwill, the Company recognizes an impairment loss in an amount equal to that excess. The Company determines the implied fair value of goodwill in the same manner as it determines the amount of goodwill recognized in a business combination, by determining the excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities.

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(7) Bonds with Stock Warrants

Under Korean GAAP, for the detachable warrants on bonds issued before December 31, 2002, all the proceeds from the issuance of bonds with stock warrants are accounted for as debt securities, regardless of whether the warrants are detachable or non-detachable. However, the proceeds from issuance of debt securities with detachable warrants from January 1, 2003 are allocated between the warrants and the debt securities based on their relative fair values at time of issuance. For debt securities with non-detachable warrants, the warrants are recorded as the difference between the issuance amount of debt securities with non-detachable warrants and the reference amount of debt securities without warrants in similar market.

Under U.S.GAAP, the proceeds from the issuance of bonds with detachable stock warrants are allocated between the debt securities and the warrants based on their relative fair values at the time of issuance. The portion allocated to warrants is accounted for as paid-in capital.

(8) Stock Compensation Expense

A summary of status of hanaro and Hanaro Dream, Inc.'s stock option plans as of December 31, 2003, 2004 and 2005, and the changes during the years ended on those dates are presented below.

hanaro:

	2003		2004		2005	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of year	1,810,642	₩17,558	1,721,153	₩17,549	21,494,043	₩ 6,005
Granted	—	—	19,772,890	5,000	610,000	5,000
Cancelled	(89,489)	17,750	—	—	(137,562)	17,750
Outstanding at end of year	<u>1,721,153</u>	17,549	<u>21,494,043</u>	6,005	<u>21,966,481</u>	5,903
Options exercisable at year-end	1,721,153		1,721,153		1,583,591	
Weighted-average fair value of options granted during the year		—		457		385

Hanaro Dream, Inc.:

	2003		2004		2005	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of year	—	₩ —	80,000	₩8,000	30,000	₩8,000
Granted	80,000	8,000	—	—	—	—
Cancelled	—	—	(50,000)	8,000	—	—
Outstanding at end of year	<u>80,000</u>	8,000	<u>30,000</u>	8,000	<u>30,000</u>	8,000
Options exercisable at year-end	—		—		30,000	
Weighted-average fair value of options granted during the year		1,108		—		—

The following table summarizes information about hanaro and Hanaro Dream, Inc.'s stock options as of December 31, 2005.

hanaro:

Ranges of exercise price	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price
₩5,000	20,382,890	1.4	₩ 5,000
₩5,630	50,000	0.0	5,630
₩17,750 to ₩19,910	1,533,591	0.0	17,905
₩5,000 to ₩19,910	<u>21,966,481</u>	1.3	5,903

Hanaro Dream, Inc.:

Ranges of exercise price	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price
₩8,000	30,000	0.0	₩8,000

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(9) Interest Rate Swap

The Company has entered into interest rate swap contracts in order to hedge the exposure to variability in cash flows from a forecasted transaction of floating rate notes. Under Korean GAAP, the Company records the valuation loss as capital adjustment.

Under U.S. GAAP, SFAS No. 133-“Accounting for Derivatives instruments and Hedging Activities”, for a derivative designated as hedging the exposure to variability in expected future cash flows that is attributable to a particular risk, the effective portion is reported in other comprehensive income and the ineffective portion is reported in earnings.

(10) Loans to Employees

Under Korean GAAP, loans to employees for purposes of purchasing the Company’s common stock are recorded as assets. Under U.S.GAAP, such transactions are recorded as a reduction in shareholders’ equity.

(11) Advanced Payments

Under Korean GAAP, advanced payments, which relate to purchases of property and equipment, are included in current assets. Under U.S.GAAP, such advanced payments are included in non-current assets.

(12) Revenue Recognition

Under Korean GAAP, activation fees and service installation service fees are recorded as revenues when billed and the related direct incremental acquisition cost are expensed as incurred.

Under U.S.GAAP, such amount should be deferred and recognized over the period of customer relationship.

(13) Minority Interests in Consolidated Subsidiaries

Under Korean GAAP, minority interests in consolidated subsidiaries is presented as a component of shareholders’ equity in the consolidated balance sheets. Under U.S. GAAP, minority interests in consolidated subsidiaries are not included in shareholders’ equity; rather, it is presented between liability and shareholders’ equity in the consolidated balance sheets.

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(14) Comprehensive Income

Under Korean GAAP, there is no requirement to present comprehensive income. Under U.S.GAAP, effective for fiscal years beginning after December 15, 1997, comprehensive income and its components must be presented in the financial statements. Comprehensive income includes all changes in shareholders' equity during a period except those resulting from investment by, or distribution to, owners, including certain items not included in the current year's results of operations.

Comprehensive income (loss) for the years ended December 31, 2003, 2004 and 2005 is summarized as follows:

	Korean Won		
	2003	2004 (In millions)	2005
Net income (loss) in accordance with U.S.GAAP	₩(161,598)	₩14,849	₩(203,212)
Other comprehensive income (loss), net of tax :			
Unrealized gains (losses) on investments	(1,062)	2,087	14,591
Less : reclassification adjustment	(1,321)	(1,038)	(5,643)
Net unrealized gains (losses) on investments	(2,383)	1,049	8,948
Foreign-based operations translation credit (debit)	2	44	—
Less : reclassification adjustment	—	(22)	—
Net foreign-based operations translation credit (debit)	2	22	—
Net interest rate swap	(7,425)	(4,565)	15,763
Comprehensive income (loss) in accordance with U.S.GAAP	<u>₩(171,404)</u>	<u>₩11,355</u>	<u>₩(178,501)</u>

(15) Statements of Cash Flows

Statements of cash flows for the year ended December 31, 2003 under Korean GAAP do not include cash flows of Hanafos and Hanadream, which are included in the consolidation under U.S. GAAP.

Under Korean GAAP, cash flows from refundable deposits are reported as investing activities, which are reported as operating activities under U.S. GAAP. Summarized cash flows data by operating, investing and financing activities in accordance with U.S.GAAP for the years ended December 31, 2003, 2004 and 2005 are set out below.

	Korean Won		
	2003	2004 (In millions)	2005
Net cash provided by (used in):			
Operating activities	₩ 306,198	₩ 444,230	₩ 496,833
Investing activities	(269,837)	(183,523)	(582,395)
Financing activities	(118,106)	(294,922)	(48,366)
Decrease due to changes in consolidated subsidiaries	—	(39,277)	120,500
Decrease in cash and cash equivalents	(81,745)	(73,492)	(13,428)
Cash and cash equivalents, beginning of year	323,583	241,838	168,346
Cash and cash equivalents, end of year	<u>₩ 241,838</u>	<u>₩ 168,346</u>	<u>₩ 154,918</u>

(16) Recently Issued Accounting Pronouncements

In October 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") 13-1, "Accounting for Rental Costs Incurred during a Construction Period" ("FSP 13-1"). FSP13-1 requires rental costs associated with ground or building operating leases that are incurred during a construction period be recognized as rental expense and included in income from continuing operations. FSP13-1 is effective for fiscal periods beginning after December 15, 2005. The provisions of FSP 13-1 are not expected to have a material impact on the Company's consolidated financial statements.

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In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R"). SFAS 123R replaces SFAS No.123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No.25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees to be recognized in the financial statements based on their fair value. The Company will adopt SFAS 123R effective January 1, 2006 using the modified prospective method of transition. This method requires SFAS 123R to be applied to new awards and awards modified, repurchased or cancelled after the effective date. Additionally, compensation expense attributable to any unvested awards outstanding at the date of adoption must be recognized over the remaining requisite service period. As the Company previously adopted the fair value recognition provisions of SFAS No.123, the Company does not expect the adoption of SFAS 123R to have a significant impact on the Company's financial position, operating results or cash flows.

In December 2004, the FASB issued SFAS No.153, "Exchange of Nonmonetary Assets, an amendment of APB Opinion No.29, Accounting for Nonmonetary Transaction." SFAS No.153 amends the APB Opinion No.29 exception to fair value measurement for nonmonetary exchanges to apply only to those exchanges which lack commercial substance, as defined in the standard. SFAS No. 153 is effective for nonmonetary asset exchanges that the Company enters into on or after July 1, 2005. The adoption of this standard is not expected to have a material impact on the Company's financial position, operating results or cash flows.

In July 2004, the EITF issue No. 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock if the Investor Has the Ability to Exercise Significant Influence over the Operating and Financial Policies of the Investee." EITF Issue No.02-14 was effective for reporting periods beginning after September 15, 2004 and requires the use of the equity method of accounting for investments that are in-substance common stock when the investor has the ability to exercise significant influence over the investee. The adoption of this guidance is not expected to have a material impact on the Company's financial position, operating results or cash flows.

In March 2004, the EITF supplement EITF Issue No.03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF Issue No.03-1 provides guidance for evaluating whether an investment is other-than-temporarily impaired and requires disclosures about unrealized losses on available for sale debt and equity securities. In September 2004, the FASB issued FASB Staff Position ("FSP") EITF Issue 03-1-1, "Effective Date of Paragraphs 10-20 of EITF Issue 03-1," which deferred the effective date of the recognition and measurement provisions of the consensus until further guidance is issued. The impact on future earnings, if any, of the recognition and measurement provisions of EITF Issue No.03-1 will not be known until the FASB issues its guidance.

(17) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

(i) Cash and cash equivalents, short-term investment securities, short-term borrowings:

The carrying amount approximates fair value because of the nature or short maturity of those instruments.

(ii) Other investments:

The fair value of market-traded investments is estimated based on the quoted market prices for those or similar investments. For other investments for which there are no quoted market prices, net asset value proportionate to the Company's ownership percentage is used as estimated fair value. However, a reasonable estimate of fair value could not be made without incurring excessive costs. Additional information pertinent to the fair value of unquoted investments is provided below.

(iii) Long-term debt, debentures and long-term obligation under capital lease:

The fair values of long-term debt and debentures are estimated based on the quoted market prices for the same or similar issues or on the current rates offered for the debt of the same remaining maturities.

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The estimated fair values of the Company's financial instruments as of December 31 are summarized as follows:

	Korean Won			
	2004		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In millions)			
Cash and cash equivalents and short-term investment securities	₩169,467	₩169,467	₩154,918	₩154,918
Short-term financial instruments	193,716	193,716	23,350	23,350
Long-term financial instruments	68	68	1,622	1,622
Long-term investment securities	28,816	29,655	31,471	32,418
Long-term debt, including current portion	465,910	466,922	271,061	271,061
Debentures, including current portion	488,975	502,972	683,206	684,496
Long-term obligations under capital lease, including current portion	79,854	79,285	39,423	38,110
Interest rate swap	17,623	17,623	1,859	1,859

(18) Classification of income and expenses as operating income

A reconciliation of the operating income or loss accounts under Korean GAAP to the approximate amounts determined under US GAAP pursuant to FASB Concepts Statement No.6 and S-X Reg. 210.5-03 for the years ended December 31, 2003, 2004 and 2005 is as follows:

	Korean Won			Translation into
	2003	2004	2005	U.S. Dollars(Note 2)
	(In millions)			2005
	(In thousands)			
Operating income based on Korean GAAP	₩ 70,694	₩113,930	₩ 38,522	\$ 38,141
U.S. GAAP adjustments:				
Gain on disposal of property and equipment	1,102	885	3,962	3,923
Donations	(800)	(306)	(312)	(309)
Loss on disposal of property and equipment	(1,326)	(1,246)	(2,154)	(2,133)
Loss on disuse of property and equipment	(61,333)	(20,726)	(60,586)	(59,986)
Other adjustments	3,444	416	11,326	11,214
Operating income(loss) based on U.S. GAAP	₩ 11,781	₩ 92,953	₩ (9,242)	\$ (9,150)

Other adjustments represent other US GAAP reconciliation items affecting operating income, which include development costs, revenue recognition, error corrections and amortization of goodwill.

(19) Extraordinary item

Certain items of income and expense considered as extraordinary items under Korean GAAP would be considered non extraordinary items under U.S. GAAP. However, this reclassification would have no impact on consolidated equity, net income (loss).

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(20) Effect on Net Income(Loss) and Shareholders' Equity

The approximate effects of the significant adjustments to net loss and shareholders' equity, that are required if U.S.GAAP were applied instead of Korean GAAP, are summarized as follows:

	Korean Won			Translation into
	2003	2004	2005	U.S. Dollars (Note 2)
	(In millions, except per share amount)			2005
				(In thousands, except per share amount)
Net income (loss) under Korean GAAP	<u>₩ (161,299)</u>	<u>₩ 13,046</u>	<u>₩ (209,318)</u>	<u>\$ (207,246)</u>
Adjustments:				
Development costs	(1,717)	1,250	(211)	(209)
Interest capitalization	3,168	1,387	1,541	1,526
Revenue recognition	346	282	—	—
Bonds with stock warrants	(7,066)	—	—	—
Consolidation of SPE	155	—	—	—
Amortization of goodwill	425	738	1,767	1,750
Error corrections	4,390	(1,854)	—	—
Losses on impairment of investment securities	—	—	3,009	2,979
Deferred tax effect of current year's U.S. GAAP adjustments	89	(2,545)	(852)	(844)
Valuation allowance against deferred tax assets created by U.S. GAAP adjustments	(89)	2,545	852	844
	<u>(299)</u>	<u>1,803</u>	<u>6,106</u>	<u>6,046</u>
Net loss under U.S. GAAP	<u>₩ (161,598)</u>	<u>₩ 14,849</u>	<u>₩ (203,212)</u>	<u>\$ (201,200)</u>
Basic and diluted net income (loss) per share under U.S. GAAP (in Korean won and U.S. dollars)	<u>₩ (1,006)</u>	<u>₩ 64</u>	<u>₩ (879)</u>	<u>\$ (0.871)</u>
Basic and diluted ordinary income (loss) per share under U.S. GAAP (in Korean won and U.S. dollars)	<u>₩ (1,006)</u>	<u>₩ 64</u>	<u>₩ (879)</u>	<u>\$ (0.871)</u>
Shareholders' equity under Korean GAAP	<u>₩1,730,720</u>	<u>₩1,751,606</u>	<u>₩1,573,080</u>	<u>\$ 1,557,505</u>
Adjustments:				
Licensing cost paid by shareholders	₩ 35,250	₩ 35,250	₩ 35,250	\$ 34,900
Development costs	(2,716)	(1,465)	(1,676)	(1,659)
Interest capitalization	3,168	4,555	6,096	6,036
Loans to employees	(12,574)	(12,067)	(9,386)	(9,293)
Consolidation of SPE	2,314	—	—	—
Revenue recognition	(282)	—	—	—
Goodwill	850	1,589	3,356	3,323
Error corrections	922	(932)	—	—
Deferred tax effect of U.S. GAAP adjustments	(11,728)	(10,724)	(11,832)	(11,715)
Valuation allowance against deferred tax assets created by U.S. GAAP adjustments	11,728	10,724	11,832	11,715
Changes in minority interest applying U.S. GAAP	(598)	(3,215)	(4,920)	(4,871)
Minority interests under U.S. GAAP	(19)	—	—	—
	<u>26,315</u>	<u>23,715</u>	<u>28,720</u>	<u>28,436</u>
Shareholders' equity under U.S. GAAP	<u>₩1,757,035</u>	<u>₩1,775,321</u>	<u>₩1,601,800</u>	<u>\$ 1,585,941</u>

Basic and diluted net (ordinary) income (loss) per share under U.S. GAAP for the years ended December 31, 2003, 2004 and 2005, respectively, was calculated reflecting the effect from the reverse stock split occurred on May 3, 2006.

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(21) Reconciliation of the Balance Sheet Accounts

The reconciliation of the significant balance sheet accounts under Korean GAAP except for the shareholders' equity items shown above, to the approximate amounts determined under U.S.GAAP as of December 31 is as follows:

	Korean Won		Translation into
	2004	2005	U.S. Dollars (Note 2)
	(In millions)		2005
			(In thousands)
Current assets			
Current assets under Korean GAAP	₩ 624,797	₩ 446,374	\$ 441,954
U.S. GAAP adjustments:			
Short-term loans	(4,373)	(7,757)	(7,680)
Prepaid expenses	3,585	2,424	2,400
Deferred income tax assets	170	244	242
Current assets under U.S. GAAP	<u>624,179</u>	<u>441,285</u>	<u>436,916</u>
Non-current assets			
Non-current assets under Korean GAAP	2,560,315	2,587,886	2,562,264
U.S. GAAP adjustments:			
Long-term loans	(7,694)	(1,629)	(1,613)
Long-term prepaid expenses	4,210	3,488	3,453
Intangibles	35,374	36,930	36,564
Interest capitalization	4,555	6,096	6,036
Deferred income tax assets	11,213	12,049	11,930
Non-current assets under U.S. GAAP	<u>2,607,973</u>	<u>2,644,820</u>	<u>2,618,634</u>
Total assets based on U.S. GAAP	<u>₩3,232,152</u>	<u>₩3,086,105</u>	<u>\$ 3,055,550</u>
Current liabilities			
Current liabilities under Korean GAAP	₩ 742,510	₩ 638,176	\$ 631,858
U.S. GAAP adjustments:			
Unearned income	3,585	2,424	2,400
Error corrections	932	—	—
Deferred income tax liabilities	170	244	242
Current liabilities under U.S. GAAP	<u>747,197</u>	<u>640,844</u>	<u>634,500</u>
Long-term liabilities			
Long-term liabilities under Korean GAAP	690,996	823,004	814,855
U.S. GAAP adjustments:			
Unearned income	4,210	3,488	3,453
Deferred income tax liabilities	11,213	12,049	11,930
Long-term liabilities under U.S. GAAP	<u>706,419</u>	<u>838,541</u>	<u>830,238</u>
Total liabilities based on U.S. GAAP	<u>₩1,453,616</u>	<u>₩1,479,385</u>	<u>\$ 1,464,738</u>
Minority interests based on U.S. GAAP	<u>₩ 3,215</u>	<u>₩ 4,920</u>	<u>\$ 4,871</u>

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(22) Tax Effects of Temporary Differences

The tax effects of temporary differences that resulted in significant portions of the deferred tax assets and liabilities at December 31, computed under U.S.GAAP, and the description of the financial statement items that created these differences are as follows:

	Korean Won			
	2004		2005	
	Current	Non-current	Current	Non-current
	(In millions)			
Deferred tax assets:				
Development costs	₩ 403	₩ —	₩ 461	₩ —
Error correction	256	—	—	—
Total deferred income tax assets	659	—	461	—
Valuation allowance	(489)	11,213	(217)	12,049
Net deferred income tax assets	170	11,213	244	12,049
Deferred tax liabilities:				
License fee	—	(9,694)	—	(9,694)
Interest capitalization	(170)	(1,082)	(244)	(1,432)
Goodwill	—	(437)	—	(923)
Total deferred income tax liabilities	(170)	(11,213)	(244)	(12,049)
Net deferred income tax assets	₩ —	₩ —	₩ —	₩ —

At December 31, 2004 and 2005, the Company has available loss carryforwards of ₩ 1,289,173 million and ₩ 703,781 million, respectively, which may be applied against future taxable income through 2009 and 2010, respectively.

The income tax expenses under U.S.GAAP for the years ended December 31, 2003, 2004 and 2005 are as follows:

	Korean Won		
	2003	2004	2005
	(In millions)		
Income tax currently payable	₩ 354	₩ 806	₩ 245
Deferred income taxes	(52)	(311)	189
Income tax expense	₩ 302	₩ 495	₩ 434

The deferred income tax consequences of temporary differences in reporting items for financial statement and income tax purposes are recognized, if appropriate. Realization of the future tax benefits related to the deferred income tax assets is dependent on several factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook for the Korean economic environment and the overall industry outlook. Management has considered these factors in reaching its conclusion as to the valuation allowance for financial reporting purposes. Such valuation allowance is reviewed periodically.

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The difference between the actual income tax expense and the tax benefit computed by applying the statutory Korean corporate income tax rates to income before income tax for 2003, 2004 and 2005 is attributable to the following:

	2003	Korean Won 2004 (In millions)	2005
Income tax benefit at statutory Korean corporate income tax rate of 29.7%, 29.7% and 27.5% in 2003, 2004 and 2005, respectively	₩(49,184)	₩ 5,199	₩(57,120)
Non-deductible meals and entertainment and other	1,143	576	42,241
Change in valuation allowance	47,692	(4,928)	15,325
Other	651	(352)	(12)
Actual income tax expense	<u>₩ 302</u>	<u>₩ 495</u>	<u>₩ 434</u>

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EXHIBIT INDEX

Exhibits	Description
1.1.	Articles of Incorporation, as amended on March 24, 2006 (English translation)
4.1.	Memorandum of Understanding with between Celrun Inc. and Kim Young-min, hanarotelecom Inc. and CelrunTV Inc., dated February 6, 2006 (English translation)
4.2.	Business Cooperation Agreement among hanarotelecom, inc., Celrun Co., Ltd. and CelrunTV, dated March 6, 2006 (English translation)
8.1.	List of hanarotelecom's significant subsidiaries (See "Item 4.C. Organizational Structure.")
11.1	Code of Ethics (English translation)
12.1.	Section 302 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)
12.2.	Section 302 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)
13.1.	Section 906 Certifications required by Rule 13a-14(b) and 18 U.S.C. Section 1350

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Articles of Incorporation

dated

March 24, 2006

of

hanarotelecom incorporated

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Articles of Incorporation

of

hanarotelecom incorporated

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Article 37-2.	Audit Committee
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Article 38.	Responsibilities of the Statutory Auditor
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Chapter VI. <Deleted on October 21, 2003>

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Article 42.	<Deleted on October 21, 2003>

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Articles of Incorporation of hanarotelecom incorporated

Enacted on Aug. 30, 1997
First Amendment on Sept. 23, 1997
Second Amendment on March 30, 1998
Third Amendment on August 28, 1998
Fourth Amendment on February 26, 1999.
Fifth Amendment on October 1, 1999
Sixth Amendment on March 17, 2000
Seventh Amendment on March 23, 2001
Eighth Amendment on March 29, 2002
Ninth Amendment on October 21, 2003
Tenth Amendment on March 26, 2004
Eleventh Amendment on December 16, 2004
Twelfth Amendment on March 25, 2005
Thirteenth Amendment on March 24, 2006

Chapter I. General Provisions

Article 1. Corporate name

The corporate name of the Company shall be “*hanarotelecom chushik hoesa*” in Korean, and “hanarotelecom incorporated” in English.
<Amended on Aug. 28, 1998, Dec. 16, 2004>.

Article 2. Objectives

- (1) The objectives of the Company shall be; to play a leading role in the nation’s efforts to accomplish a society of multimedia super-highway telecommunication industry by efficient performance of telecommunication business; and to establish and operate the nation’s second basic communication service network, as a preparation against any national disaster or calamity, by diversified communication channels and automatic recovery system to be established; and so to enhance the improvement of the end-users’ convenience and public welfare. <Amended on Mar. 26, 2004>
- (2) In order to accomplish such objectives as set forth in the foregoing Paragraph (1), the Company shall;

-
1. Provide services related to the internet including broadband internet access services; <Inserted on Mar. 26, 2004, amended on Mar. 24, 2006>
 2. Provide local telephony, long distance telephony and international telephony services; <Amended on Mar. 26, 2004>
 3. Lease telecommunications lines and facilities related thereto;
 4. Establish, own and operate telecommunication networks;
 5. Manufacture, sell and supply equipment and/or machines incidental or conducive to telecommunication business;
 6. Research and develop technologies related to telecommunications;
 7. Initiate the future communication industries, new media businesses including the broadcasting business and other broadcasting-related businesses; <Amended on Mar. 26, 2004, March 24, 2006>
 8. Undertake any overseas activities, for any of the objectives set forth in the foregoing items;
 9. Lease real estates, and facilities thereof; <Amended on March 30, 1998, Mar. 26, 2004>;
 10. <Deleted on March 30, 1998>
 11. Perform any activities/or business mandated by laws and regulations applicable to telecommunication activities; and
 12. Conduct any and all activities directly or indirectly related to or incidental to any of the foregoing objectives.
- (3) The Company shall conduct any activities required by laws and regulations, in addition to those set forth in the foregoing Paragraph (2) of this Article.

Article 3. Head Office and Branch Offices

- (1) The head office of Company shall be located in Seoul, Korea
- (2) The Company may establish branches and/or offices at any place it deems necessary to do so.

Article 4. Public Notices

Public notices of the Company shall be made by publishing them in "*The Seoul Shinmun*" (or its successor in case of merger or change of name. hereinafter, the same), a daily newspaper published in Seoul, Korea. <Amended on October 1, 1999, March 24, 2006>

Chapter II. Shares

Article 5. Number of Authorized Shares

The total number of shares to be issued by the Company shall be seven hundred million (700,000,000) shares. <Amended on October 21, 2003>

Article 6. Par Value

The par value of each share issued by the Company shall be Five Thousand (5,000) Won.

Article 7. Number of Initial Shares

The total number of shares to be issued by the Company upon its incorporation are One Hundred Twenty Million Eighty-two Thousand Two Hundred (120,082,200) shares. <Amended on Sept. 23, 1997>

Article 8. Class of Shares and Denomination of Share Certificates

The shares issued by the Company shall be registered common shares, registered preferred shares, registered convertible shares, and registered redeemable shares, which shall be represented by share certificates in eight (8) denominations: One (1), Five (5), Ten (10), Fifty (50), One Hundred (100), Five Hundred (500), One Thousand (1,000) and Ten Thousand (10,000) share(s). <Amended on March 23, 2001, March 24, 2006>

Article 8-2. Number and Terms of Preferred Shares <Inserted on March 24, 2006>

- (1) Preferred shares to be issued by the Company shall be non-voting and the number of such shares to be issued shall be not more than the half of the total issued shares.
- (2) The rate of preferential dividends per annum payable on preferred shares shall be within the range of not less than one(1)% of their par value as determined by the Board of Directors at the time of the issuance thereof.
- (3) Preferred shares to be issued by the Company shall be cumulative or non-cumulative, and participating or nonparticipating as determined by the Board of Directors.
- (4) If the Company does not pay dividends on common shares, it may not pay dividends on preferred shares either.
- (5) In the event that a resolution to not pay dividends on preferred shares has been passed at a meeting of shareholders of the Company, shareholders holding preferred shares shall be granted voting rights from the opening date of the meeting of shareholders immediately following such meeting of shareholders

until the closing date of the meeting of shareholders at which a resolution is passed in favor of the payment of dividends on preferred shares.

- (6) In case the Company issues new shares by a rights issue or bonus issue, the new shares to be assigned to shareholders holding preferred shares shall be common shares in the case of rights issue, and shall be preferred shares of the same class in the case of a bonus issue.
- (7) The duration of preferred shares may be determined upon resolution of the Board of Directors of the Company at the time of issuance within the range of at least three (3) years up to a maximum of ten (10) years from the date of issuance thereof, and in such case the preferred shares shall be converted into common shares contemporaneously with expiration of such duration; provided, however, that, if the Company fails to pay the prescribed dividends on preferred shares during the said period, the aforementioned duration period shall be extended until such unpaid dividends have been paid in full. In this case, the provisions of Paragraph 5 of Article 9 hereof shall apply *mutatis mutandis* with respect to payment of dividends on the shares issued as a result of conversion hereunder.

Article 8-3. Number and Terms of Convertible Shares <Inserted on March 24, 2006>

- (1) The Company may issue shares convertible to common shares or preferred shares as determined by the Board of Directors.
- (2) The issue price of new shares to be issued upon conversion of shares shall be the issue price of the convertible shares prior to conversion and the number of new shares to be issued upon conversion of shares shall be determined by the Board of Directors. However, the conversion ratio shall be adjusted in the case of a share split, share consolidation, or other lawful adjustments.
- (3) The conversion period shall be determined by the Board of Directors and it shall not exceed ten (10) years.
- (4) The provisions of Paragraph 5 of Article 9 hereof shall apply *mutatis mutandis* with respect to payment of dividends on the shares issued as a result of conversion hereunder.

Article 8-4. Number and Terms of Redeemable Shares <Inserted on March 24, 2006>

- (1) The Company may issue redeemable preferred shares which may be redeemed mandatorily , or may be redeemed with its profits at its own discretion, as determined by the Board of Directors.

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- (2) The redemption price of redeemable shares shall amount to the 'issue price +additional price', and the additional price shall be determined by the Board of Directors at the time of issuance of redeemable shares taking into consideration interest rates, market conditions, and other matters related to the issuance of redeemable shares.
 - (3) The redemption period shall be determined by the Board of Directors within the range of at least one (1) month up to a maximum of ten (10) years. However, the redemption period for the redeemable shares that the Company shall redeem mandatorily shall be extended in any of the following cases, and in such case, the redemption period shall be extended to the date when such case no longer exists.
 1. When payout of preferred dividends on redeemable shares has not been completed;
 2. When the Company has not redeemed the shares within the due date owing to a insufficiency of profit
 - (4) The Company may redeem redeemable shares at once or in installments. If the Company is to redeem the shares in installments, the shares to be redeemed shall be chosen by lot or on a pro rata basis. Any fractional shares that stem from selection of the shares on a pro rata basis shall not be redeemed.
 - (5) When the Company will redeem the shares, it shall publicly announce its intention to do so, the shares to be redeemed, and the term of not less than one (1) month for submission of share certificates. The Company shall separately inform the shareholders and pledgees listed on the shareholders' register of such information, and the Company shall compulsorily redeem the redeemable shares at the expiration of above period.
 - (6) The Company may issue convertible shares as specified in the provisions of Article 8-3 upon a resolution of the Board of Directors when issuing redeemable shares.

Article 9. Preemptive Rights

- (1) Each shareholder of the Company shall have a preemptive right to subscribe for any new shares to be issued by the Company in proportion to its shareholding ratio.
- (2) If any shareholder waives or forfeits its preemptive rights, or if any fractional number of shares("odd shares") is created in the course of allotting of such new shares, then such shares waived or forfeited or the odd shares shall be disposed in accordance with by resolution of the Board of Directors of Company.

<Amended on August 28, 1999>

- (3) Notwithstanding the provisions of the foregoing Paragraph (1), the Company may, by resolution of the Board of Directors, allocate such new shares to any persons, including persons other than existing shareholders <Amended on August 28, 1998>;
1. If new shares are subscribed by the public pursuant to the Securities and Exchange Act;
 2. If new shares are offered to the public in the form of an increase of paid-in capital by means of a general public offer pursuant to a resolution of the Board of Directors, in accordance with the Securities and Exchange Act;
 3. If new shares are allotted to members of employee shareholders association in accordance with the relevant provisions of the Securities and Exchange Act; <Amended on April 28, 1998>
 4. If new shares are issued in the form of depositary receipts (DR) in accordance with the Securities and Exchange Act;
 5. <Deleted March 30, 1998>;
 6. If new shares are issued to any person exercising stock option rights conferred pursuant to Article 189-4 of the Securities and Exchange Act <Inserted on February 26, 1999.>;
 7. If new shares are issued to a foreign telecommunications company or a foreign financial/investment institution that has completed the foreign investment procedures for the purpose of strategic alliance in relation to the business. <Inserted on October 1, 1999.>
 8. If new shares are issued to domestic/overseas investors or the employees or officers of the Company up to an amount not exceeding 50% of the then current total issued and outstanding shares of the Company for the purpose of realizing the Company's business objectives, including, but not limited to, improving its financial structure and entering into new business areas. <Inserted on Mar. 26, 2004, amended on Mar. 26, 2004>
- (4) <Deleted on October 21, 2003>
- (5) In case the Company issues new shares through right issues, bonus issues and stock dividends, the new shares shall be deemed to have been issued at the end of the fiscal year immediately prior to the fiscal year during which the new shares are issued for purposes of distribution of dividends for such new shares.

Article 9-2. Stock Purchase Option Rights <Inserted on Feb. 26, 1999, amended on March 17, 2000>

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- (1) To the extent permitted under the Securities and Exchange Act, the Company may grant its officers and employees (including, without limitation, the officers/employees of the Company's affiliates as described in Article 189-4, Paragraph (1) of the Securities and Exchange Act) stock options by a special resolution of a shareholders' as prescribed under Article 189-4 of the Securities and Exchange Act. Provided, pursuant to Article 189-4, Paragraph (3) of the Securities and Exchange Act, such rights may be granted by a resolution of the Board of Directors' meeting to the extent of 10% of the Company's total number of shares issued and outstanding, subject to applicable laws and regulations. Other than in the case of death, mandatory retirement or other involuntary termination of employment not attributable to the grantee, a stock option can only be exercised if the grantee has been employed by the Company for at least two (2) years after such stock option was granted and must be exercised within five (5) years from the date in which the option becomes exercisable. <Amended on October 21, 2003>
 - (2) The stock option rights may be granted to any officer or employee of the Company, who has contributed or are qualified to contribute, to the establishment, and management, overseas operations, technological innovation or the like. Provided, however, the stock purchase options shall not be granted to:
 1. the largest shareholder in the Company and specially related person(s) (as defined in Article 10-3, Paragraph 2, of the Enforcement Decree of the Securities and Exchange Act); or
 2. Major shareholders and their specially related persons as defined in Article 188 of the Securities and Exchange Act; or
 3. Any person who becomes a major shareholder by exercising the stock purchase option rights hereunder pursuant to Article 188 of the Securities and Exchange Act. <Amended on October 21, 2003>
 - (3) Shares to be delivered upon exercise of the stock option rights (in the event the difference between the price of shares at which the stock purchase option is exercised and market price thereof is paid in cash or delivered from treasury stock, such shares that are used as the basis of calculation of such differences.) shall be registered common shares.
 - (4) The purchase price for each share when exercising stock option rights shall be determined in accordance with the relevant laws and regulations.
 - (5) The stock option rights shall be exercisable in compliance with the Securities and Exchange Act. <Amended on October 21, 2003>

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- (6) The stock purchase option rights may be cancelled by a resolution of the Board of Directors;
1. If the officer or employee conferred with the stock purchase option rights hereunder resigns voluntarily or is discharged from his or her office; or
 2. If the officer or employee conferred with the stock purchase option rights hereunder inflicts substantial or material damage on the Company by his/her willful misconduct or negligence; or
 3. If any of the causes for the cancellation of stock purchase option rights as set forth in the Stock Option Agreement occurs.

Article 10. <Deleted on March 24, 2006>

Article 11. Transfer Agent <Title changed on March 30, 1998>

- (1) The Company shall have a transfer agent in respect of shares in Company. <Inserted on March 30, 1998>.
- (2) The appointment of such transfer agent and any contract regulating the scope of the agent's duties shall be made in compliance with a resolution of the Board of Directors and shall be noticed to the public.<Inserted on March 30, 1999>
- (3) The register of shareholders of the Company or a copy of it shall be kept at the office of the transfer agent, and the alteration of entries in the register of shareholders as well as the creation or cancellation of pledges and trusts, issuance of share certificates, acceptance of reports and other related activities shall be handled by the transfer agent. <Amended on August 28, 1998>
- (4) Such procedures as referred to in the foregoing Paragraph (3) shall be performed in compliance with the regulations regarding transfer agency services for securities. <Amended on August 28, 1998>
- (5) <Deleted on August 28, 1998>
- (6) <Deleted on August 28, 1998>
- (7) <Deleted on August 28, 1998>

Article 12. Report of Names, Addresses and Seal Impressions of Shareholders, Etc.

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- (1) Shareholders and registered pledgees shall report their names, addresses, and seal impressions or specimen signatures with the transfer agent appointed under Article 11 hereof. <Amended on March 30, 1998>
 - (2) Shareholders or registered pledgees who reside overseas shall designate an agent and a place within the Republic of Korea for the delivery and receipt of notices from Company.
 - (3) Any changes in respect of the foregoing Paragraph (1) and (2) shall promptly be reported to the Company.
 - (4) The Company shall not be responsible for any damages sustained by any shareholder or registered pledgee arising from the failure to comply with the provisions of the foregoing Paragraphs.

Article 13. Closure of Shareholders Register and Setting of Record Date

- (1) The Company shall suspend alteration of entries in the register of shareholders, registration of pledges, creation and cancellation of trust property for one month, commencing from the day following the last day closing of each accounting period.
- (2) The Company shall entitle every shareholder on its shareholders list as of the last day of each fiscal year to vote at the meeting of the annual ordinary general shareholders meeting held for such fiscal year.
- (3) The Company may suspend alteration of entries in the register of shareholders for a period not exceeding three (3) months or set a record date when necessary for convening an extraordinary general meeting of shareholders or for other reasons, in accordance with a resolution of the board of directors. The Company may suspend the alteration of entries in the registry of shareholders and at the same time set a record date, when considered necessary by the board of directors.
- (4) The Company shall give public notice of the period and dates referred to in preceding Paragraph (3) at least two weeks in advance of the commencement of the period and of the occurrence of such date.

Chapter III. Corporate Bonds

Article 14. Issuance of Convertible Bonds

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- (1) The Company may issue convertible bonds to persons, including persons other than its shareholders by a resolution of its Board of Directors to the extent that the aggregate face value of the bonds does not exceed Five Hundred Billion (500,000,000,000) Won:
 1. where the Company issues convertible bonds by a general public offering;
 2. where the Company issues convertible bonds in order to solicit foreign investment pursuant to the Foreign Investment Promotion Act when necessary for its management;
 3. where the Company issues convertible bonds to domestic/overseas investors for the purpose of realizing its business objectives; <Amended on Mar. 24, 2006>
 4. where the Company issues convertible bonds to domestic/overseas financial institutions in order for an urgent raising of funds;
 5. where the Company issues convertible bonds in overseas market pursuant to Article 192 of the SEA; or
 6. where the Company issues convertible bonds to individual or corporate investors as determined by a special resolution of a general shareholders' meeting for the purpose of raising funds. <Amended on October 21, 2003>
 - (2) The total number of shares to be issued upon conversion of the convertible bonds referred to in the foregoing Paragraph (1) shall not exceed the balance of authorized shares remaining unissued by the Company.
 - (3) The Board of Directors may decide to issue the convertible bonds referred to in Paragraph (1) with the condition that only a portion of the bonds shall have conversion rights.
 - (4) All shares issued upon conversion of the convertible bonds shall be common shares, and the conversion price shall be as determined by the Board of Directors.
 - (5) The conversion period during which the conversion rights may be exercised shall be from the day immediately following the date of issuance of the convertible bonds until the maturity day. The conversion period, however, may be adjusted by a resolution of the Board of Directors within the period of time as referred to above.

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- (6) The distribution of any interest or the payment of any dividends declared on the shares issued upon conversion of convertible bonds under Paragraph (1) shall be made in compliance with Article 9, Paragraph (5) hereof.
- (7) <Deleted on August 28, 1998>

Article 15. Issuance of Bonds with Warrants

- (1) The Company may issue bonds with warrants to persons, including persons other than its shareholders by a resolution of its Board of Directors to the extent that the aggregate face value of the bonds with warrants shall not exceed Five Hundred Billion (500,000,000,000) Won:
1. where the Company issued bonds with warrants by a general public offering;
 2. where the Company issues bonds with warrants in order to solicit foreign investment pursuant to the Foreign Investment Promotion Act when necessary for its management;
 3. where the Company issues bonds with warrants to domestic/overseas investors for the purpose of realizing its business objectives; <Amended on Mar. 24, 2006>
 4. where the Company issues bonds with warrants to domestic/overseas financial institutions in order for an urgent raising of funds;
 5. where the Company issues bonds with warrants in overseas market pursuant to Article 192 of the SEA; or
 6. where the Company issues bonds with warrants to individual or corporate investors as determined by a special resolution of a general shareholders' meeting for the purpose of raising funds. <Amended on October 21, 2003>
- (2) The total number of shares to be issued upon the exercise of the warrants referred to in the foregoing paragraph (1) shall not exceed the balance of authorized shares remaining unissued by Company.
- (3) The total number of shares for which the warrants may be exercised shall be determined by the Board of Directors of the Company, and shall not exceed the total face value of the issued bonds.
- (4) The shares to be issued upon the exercise of the warrants shall be common shares. The exercise price shall be determined by the Board of Directors at the time of issuance of the bonds.

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- (5) The period during which the warrants may be exercised shall be from the date one day after the date of issuance of the bonds with warrants until one day prior to the maturity date. The exercise period, however, may be adjusted by a resolution of the Board of Directors of the Company within the period of time referred to above.
 - (6) In calculating the interest on the bonds with warrants or the dividends on the shares issued upon the exercise of the warrants, the provisions of Article 9, Paragraph 4 hereof, shall apply *mutatis mutandis*.
 - (7) <Deleted on August 28, 1998>

Article 16. Application of Certain Articles for the Issuance of Bonds

Articles 11, 12 and 13 hereof shall apply *mutatis mutandis* in cases of the issuance of bonds by the Company.

Chapter IV. General Meeting of Shareholders

Article 17. Types and Time for Convening Shareholders Meetings

- (1) The general meeting of shareholders of the Company shall consist of ordinary general meetings and extraordinary general meetings.
- (2) The general meeting shall be held within three (3) months after the closing of each fiscal year. An extraordinary general meeting shall be held whenever it is considered necessary.

Article 18. Call for Shareholders Meetings

- (1) Except as otherwise provided for in the relevant laws and regulations, the Representative Director shall convene a shareholders meeting of the Company in accordance with the resolution of the Board of Directors. <Amended on October 21, 2003>
- (2) If the Representative Director is absent or unable to perform his or her responsibilities, then Article 31, Paragraph (2), hereof shall apply *mutatis mutandis*.

Article 19. Notice for Convening Shareholders Meetings and Public Notice Thereof

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- (1) A notice for a general meeting of shareholders of Company shall be made in writing or by email, stating the date, time, venue and agenda of such meeting and dispatched to each shareholder of the Company at least two (2) weeks prior to such date of meeting. Provided however in the event a notice for a general meeting sent to the address of any shareholder recorded in the Shareholders Register has not been received by such shareholder for three (3) consecutive years for any reason whatsoever, then the Company does not have to send to such shareholder any notice for general meetings to be held thereafter. <Amended on October 21, 2003, March 24, 2006>
 - (2) In the case of shareholders holding shares not more than one-hundredth(1/100) of the total issued and outstanding shares of the Company, the notice requirement described in Paragraph (1), above, may be substituted with public notices published on no less than two occasions in each of two (2) daily newspapers published in Seoul, Korea such as “*The Seoul Shinmun*” and “*Maeil Economic Daily Newspaper*”, no later than two (2) weeks prior to the scheduled date for meeting. Such public notices shall contain the intention to convene the general meeting of shareholders and the agenda of such meeting. <Amended on October 1, 1999>

Article 20. Venue of General Meetings

The Meeting shall be convened at the head office of the Company or, when considered desirable, at an adjacent location.

Article 21. Chairman

The Representative Director shall preside over all general meetings of shareholders, provided, however, that in the event that he or she is absent or unable to perform his or her responsibilities, then the provisions set forth in Article 31, Paragraph (2), shall apply *mutatis mutandis*. <Amended on October 21, 2003>

Article 22. Chairman’s Authority to Maintain Order

The chairman of the general meeting of shareholders may order anybody who intentionally disrupts the proceedings of a meeting or causes disorder at the meeting to stop speaking, to retract his or her words or to leave the meeting. The Chairman may also restrict the length and frequency of the speech of shareholders when it is deemed necessary for the meeting to proceed smoothly.

Article 23. Voting Rights

Each shareholder shall have one voting right for each share owned.

Article 24. Split Voting

- (1) Any shareholder having two (2) or more voting rights and desiring to cast his or her votes in split voting method, shall give the Company three (3) days prior notice thereof in writing, specifying his or her intention thereof and the reasons therefore.
- (2) The company may refuse to permit the foregoing split voting by a shareholder, unless the shareholder has accepted a certain number of shares in trust from other shareholders of the Company or possesses shares in the Company for the benefit of other persons, in addition to the shares in the Company owned by himself or herself.

Article 25. Voting by Proxy

- (1) A shareholder may exercise his/her vote by proxy. In this case, the proxy holder must present the Company with documents evidencing his/her power of representation prior to the opening of a general shareholders' meeting. <Amended on October 21, 2003>
- (2) For the purposes of Paragraph (1), a person who is appointed as a proxy may or may not be a shareholder of Company, and shall submit an evidence of his appointment in writing to the general meeting of shareholders for which such appointment is made.

Article 26. Matters Requiring Resolutions of Shareholders Meeting

- (1) The general meeting of shareholders shall resolve each of the following: <Amended on October 1, 1999, March 17, 2000>
 1. Appointment or dismissal of a director;
 2. Imposition of limitations on the remuneration for directors;
 3. Approval of settlement of accounts;
 4. Amendment of the Articles of Incorporation;
 5. Merger or dissolution of Company; or
 6. Any other matters for which resolutions of general meeting of shareholders are required by the relevant laws or by the Board of Directors.
- (2) If the shares of the Company are listed or traded on an overseas market, the Company shall obtain approval from the General Meeting of Shareholders to the extent such approval is required under the Rules and Regulations of the supervising authorities of the relevant overseas market where the shares are listed or traded. <Inserted as of October 1, 1999>

Article 26-2. <Deleted on October 21, 2003>

Article 27. Method of Resolution

- (1) Except as otherwise provided for in relevant laws and regulations or these Articles of Incorporation, a resolution of a general meeting of shareholders shall be adopted by a simple majority vote, but the majority shall consist of at least twenty-five percent (25%) or more of the total number of issued and outstanding shares of the Company.
- (2) Any of the following resolutions shall be adopted by a at least a two-thirds (2/3) or more affirmative vote of the shareholders present at the meeting, which affirmative votes shall also constitute at least one-third (1/3) or more of the total number of issued and outstanding shares of the Company;
 1. Amendment of these Articles of Incorporation;
 2. Removal of a director <Amended on March 17, 2000>
 3. Reduction of capital;
 4. Merger or dissolution of Company;
 5. Transfer of the entire or substantial part of business of Company by any means;
 6. Lease of entire business, delegation of business operations, or the execution, modification or cancellation of agreements from which profits/losses shall affect both parties;
 7. <Deleted on March 26, 2004>
 8. Any other matters requiring such special resolutions under the relevant laws and regulations. <Amended on October 21, 2003>
- (3) <Deleted on August 28, 1999>

Article 27-2. Cumulative Voting

With regard to the appointment of directors of the Company, the provisions of Article 382-2 of the KCC shall not apply. <Inserted on October 1, 1999.>

Article 28. Minutes of the General Meeting

The proceedings and resolutions of the Meeting shall be recorded in the minutes which, after being signed or sealed by the chairman of the Meeting and all the directors present, shall be kept at the Company's head office and branches.

Chapter V. Directors, Board of Directors and Audit Committee

Article 29. Directors

- (1) The total number of directors of the Company shall be within fifteen (15) directors. <Amended on October 1, 1999, March 29, 2002, October 21, 2003, March 25, 2005, March 24, 2006>
- (2) Directors shall be elected at the general meeting of shareholders <Amended on March 29, 2002, October 21, 2003, March 24, 2006>
- (3) <Deleted on October 21, 2003>
- (4) <Deleted on March 25, 2005>
- (5) Notwithstanding the provisions of paragraph (2), the shareholders may exercise their right of proposal as provided under the KCC, Securities and Exchange Act and other relevant laws and regulations to recommend candidates for Directors. <Inserted on October 1, 1999>
- (6) <Deleted on October 21, 2003>
- (7) <Deleted on October 21, 2003>
- (8) <Deleted on March 23, 2001>
- (9) <Deleted on October 21, 2003>
- (10) The Company may appoint Chairman, Vice-Chairman(s), President(s), Vice President(s), Senior Vice President(s), Executive Vice President(s) among the Directors by a resolution of the Board of Directors. <Amended on October 1, 1999, March 23, 2001, March 29, 2002>
- (11) <Deleted on October 1, 1999>
- (12) <Deleted on October 1, 1999>
- (13) The term of office of a director shall be a three (3) year term. However, if the term ends before the ordinary general meeting of shareholders for the last fiscal year of his of her term, it shall be extended until the end of the ordinary general meeting of shareholders.
- (14) Such director elected to fill any vacancy shall serve for a three (3) year term commencing with the day on which he or she is elected.

Article 29-2. Qualification of Directors <Inserted on March 25, 2005>

- (1) An officer or employee of any company competing with the Company by being engaged in a business that is the same or similar to any of those listed in Article 2 of AOI of the Company, or of any other company belonging to the same business group as such company pursuant to the Monopoly Regulation and Fair Trade Act, shall not become a director of the Company, and, in the event that a director of the Company becomes subject to any of the foregoing disqualification requirements, the same director shall lose his or her status as a director of the Company immediately.
- (2) For the purposes of securing the fairness in the management of the Company and/or protecting investors, the Company shall appoint an Outside Director a person who satisfies the qualifications of Outside Directors as set forth in the Securities and Exchange Act and its related regulations. Further, in the event that an Outside Director becomes subject to any of the disqualification requirements under the same law or regulations, the person shall lose his or her status as an Outside Director immediately.

Article 30. Vacancy in Directorship

- (1) In case of a vacancy in the office of a director, such vacancy shall be filled as soon as practicable by holding a shareholders' meeting to appoint a replacement director. <Amended on October 21, 2003>
- (2) The office of a director shall be deemed vacant in the event of each of the following;
 1. If he or she is deceased;
 2. If he or she is declared bankrupt;
 3. If he or she is declared incompetent or quasi-incompetent; or
 4. If he or she is finally sentenced to imprisonment or a heavier punishment.

Article 31. Responsibilities of Directors

- (1) There shall be one (1) or more Representative Directors to represent the Company. The Representative Director(s) shall represent the company individually or jointly depending on the resolution of the Board of Directors, execute resolutions adopted by the Board of Directors, and carry out the general management and operation of the Company. <Amended on March 23, 2001, October 21, 2003, March 24, 2006>
- (2) If the Representative Director is absent or unable to perform his or her responsibilities, the responsibilities of the Representative Director shall be

performed in accordance with the order set forth Paragraph 10 of Article 29 hereof, unless otherwise resolved by Board of Directors.
<Amended on March 23, 2001, October 21, 2003, March 24, 2006>

- (3) If a director becomes aware of any event which may cause material damage to the Company, such director should immediately report to the Audit Committee thereof. <Amended on March 17, 2000>

Article 32. Board of Directors

- (1) The Board of Directors shall consist of the directors of Company, and shall make, by resolutions, decisions on important matters in the course of operation of Company.
- (2) <Deleted on October 1, 1999.>
- (3) The Chairman shall be appointed by the Board of Directors and shall preside over each meeting of the Board of Directors. Unless otherwise resolved by the Board of Directors, the Representative Director shall be the Chairman and in the event that the Representative Director is absent or unable to perform his or her responsibilities, the provisions of Article 31, Paragraph (2) shall be applied *mutatis mutandis*. <Amended on October 1, 1999.> <Amended on October 21, 2003>

Article 33. Convening of Board Meetings

- (1) All Meetings of the Board of Directors shall be convened by the Representative Director or upon the demand of any member of the Board of Directors. If the Representative Director is absent or unable to perform his or her responsibilities, then the provisions of Article 31, Paragraph (2) shall apply *mutatis mutandis*. <Amended on October 21, 2003>
- (2) The Representative Director shall provide notice of any Board of Directors meetings to each director at least three (3) days prior to the scheduled date of such meeting. <Amended on March 17, 2000, October 21, 2003, March 24, 2006>

Article 34. Resolutions of the Board of Directors

- (1) Except as otherwise provided for in these Articles of Incorporation, all resolutions of the Board of Directors shall be adopted by a majority vote at a meeting where more than fifty (50%) of the Directors are present; Provided, however, with respect to resolutions regarding the removal of a member of the

Audit Committee, the approval of at least two-thirds (2/3) of the directors is necessary. <Amended on March 17, 2000>

(2) <Deleted on October 1, 1999.>

(3) No director who has a special interest in a matter for resolution can exercise his vote upon such matter.

Article 35. Matters for which Board Resolutions are Required

The following matters shall be subject to the resolution of the Board of Directors;

1. <Deleted on October 21, 2003>
2. Annual business plans, budgets, and settlement of accounts;
3. Call for a general meeting of shareholders and the agenda therefore;
4. Enactment or the amendment or repeal of important internal regulations;
5. Establishment, removal or closing of branch or other offices of the Company;
6. Borrowing money, except as otherwise provided for in separate regulations where the Representative Director is authorized to borrow money in an amount not exceeding a certain limit;
7. Election or removal of the Representative Director(s); <Amended on October 21, 2003, March 24, 2006>
8. Issuance of new shares;
9. Acquisition or disposal of material assets;
10. Institution of any important suit or settlement by compromise;
11. Allowing directors to carry on any business in competition with the Company;
12. <Deleted on August 28, 1998>
13. Any other matters for which a resolution of Board of Directors is required by these Article of Incorporation <Amended on August 28, 1998>;
14. Formation of a sub-committee within the Board of Directors in accordance with the provisions of the KCC and the appointment and removal of such sub-committee members; or <Inserted on March 17, 2000>
15. Any other important matters.

Article 35-2. Sub-Committees of the Board of Directors

Based upon the regulations of the Company, the Board of Directors may form a sub-committee composed of at least two directors to carry out certain specialized functions and may delegate powers to such a sub-committee within a specific scope.

Article 36. Minutes

- (1) With respect to a meeting of the board of directors, the matters considered by the board of directors, the progress of the meeting, the results, those opposing the matters presented and the reasons for opposition thereof shall be recorded in minutes which shall bear the names and seals or signatures of the directors in attendance at the meeting. <Amended on March 17, 2000>
- (2) A shareholder may make a request to review the minutes of the board of directors or to copy them during business hours.
- (3) The Company may refuse a request made pursuant to paragraph 2 for a specified reason. In this case, the shareholder may obtain the permission of the court and review the minutes or copy the records.

Article 37. <Deleted on March 17, 2000>

Article 37-2. Audit Committee <Inserted on October 1, 1999.>

- (1) The Company shall establish an Audit Committee in lieu of auditor in accordance with the provisions specified Article 35-2 hereof. <Amended on March 24, 2006>
- (2) The Audit Committee shall be composed of at least three (3) Directors by the resolution of Board of Directors, and at least two-thirds(2/3) of the committee shall be outside directors. However, persons who fall within each item of paragraph 2 of Article 415-2 of the Korean Commercial Act cannot compose more than one-third (1/3) of the Audit Committee. <Amended on March 17, 2000, March 29, 2002, March 24, 2006>
- (3) In the event the Company lists or transacts its shares on a foreign stock exchange market, the qualifications of the members of the Audit Committee and the composition thereof shall fulfill the requirements of the laws and regulations of the relevant country and the rules and regulations of the supervisory authority of such country. <Inserted on March 17, 2000>
- (4) Matters relating to the delegation of powers to the Audit Committee and the operation of such Audit Committee shall be determined in accordance with the Audit Committee Rules determined by the board of directors. <Amended on March 17, 2000>

Article 37-3. Outside Director Candidate Nominating Committee <Inserted on March 29, 2002.>

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- (1) The Company shall establish an Outside Director Candidate Nominating Committee in accordance with the Securities and Exchange Act or any other statutes in order to nominate candidates for Outside Directors to general meeting of shareholders.
 - (2) The Outside Director Candidate Nominating Committee shall be composed of at least three (3) Directors and Outside Directors shall constitute at least half of the total number of this committee. The term for each member of the Outside Director Candidate Nominating Committee shall be the same as the term of office for a Director who is the member of the committee. The Board of Directors may appoint a designated replacement member who will perform the responsibility of the member of the Outside Director Candidate Nominating Committee in case of absence or inability to perform his or her responsibilities, prior to such absence or inability of a member. <Amended on October 21, 2003, March 24, 2006>
 - (3) Matters relating to the delegation of powers to the Outside Director Candidate Nominating Committee and the operation of such (Outside Director Candidate Nominating) a Committee shall be determined in accordance with the Independent Director Candidate Nominating Committee Rules determined by the Board of Directors.

Article 38. Responsibilities of the Statutory Auditor

- (1) The Audit Committee shall audit the accounting records and business transactions of the Company. <Amended on March 17, 2000>
- (2) The Audit Committee shall examine the proposals and documents to be submitted by directors to general meetings of shareholders, and subsequently report at the meeting his or her opinion on whether there is any violation of law or these Articles of Incorporation or any other irregularity that might materially affect the business of Company. <Amended on March 17, 2000>
- (3) <Deleted on March 17, 2000>
- (4) The Audit Committee may request the convening of an extraordinary general meeting of shareholders by submitting a request in writing to the Board of Directors, specifying the purpose and reason for such meeting.

Article 39. Audit Report of the Audit Committee <Amended on March 17, 2000>

The Audit Committee shall prepare audit statements, which shall contain all of the proceedings and results of such audit, and shall be signed and/or sealed by the chairman of the Audit Committee and those members who are present.

Article 40. Remuneration and Severance Payment of Directors <Amended on March 17, 2000>

- (1) The Board of Directors shall decide the remuneration and severance payment for each director of the Company, subject to the ceiling amount as resolved by shareholders in their general meetings.
- (2) The Regulations for Officers' Severance Payment, adopted by the general meeting of shareholders of Company, shall apply in determining the severance payment for directors.

Chapter VI. <Deleted on October 21, 2003>

Article 41. <Deleted on October 21, 2003>

Article 42. <Deleted on October 21, 2003>

Chapter VII. Accounting

Article 43. Fiscal Year

The fiscal year of the Company shall begin on the first (1) day, of each year and end on the thirty-first (31st) day of December of the same year.

Article 44. Preparation of the Financial Statements and Business Reports, Etc.

- (1) The Representative Director shall, for each fiscal year, prepare each of the following documents, attachments and business reports and obtain the approval of the Board of Directors thereon, and deliver to the Audit Committee no later than six (6) weeks prior to the ordinary general meeting of shareholders to be held for such business year; <Amended on March 17, 2000>
 1. Balance sheet;
 2. Profit and Loss Statement; and
 3. Statement of appropriation of retained earnings or statement of disposition of deficit.
- (2) The Audit Committee shall deliver to the Representative Director its audit report no later than four (4) weeks after receiving the documents referred to in the foregoing paragraph. <Amended on March 17, 2000>

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- (3) The Company shall cause such documents and the audit report referred to in the foregoing paragraphs (1) to be placed for five (5) years in the head office and for three (3) years in each branch of the Company commencing one (1) week prior to the ordinary general meeting of shareholders.
 - (4) The Company shall give public notice of the balance sheet and the opinion thereon of an independent auditor immediately after the document referred to in paragraph (1) has been approved by the ordinary general meeting of shareholders.
 - (5) In the event that the Company causes the shares in the Company to be listed or traded on an overseas securities market, to the extent related thereto, the Company shall comply with the rules and regulations of the relevant supervising authorities in connection with the preparation, submission and disclosure of information on the management and financial condition of the Company. <Inserted on October 1, 1999>

Article 45. Appropriation of Earned Surplus

- (1) Earned surplus for each business year, including any carried-over profit, shall be appropriated in the following order;
 1. Earned surplus reserve;
 2. Other reserves required by law;
 3. Voluntary reserves;
 4. Dividends to shareholder;
 5. Any other sums required to be paid from earned surplus; and
 6. Profits to be carried forward to the next business year.

Article 46. Dividends to Shareholders

- (1) Dividends to shareholders may be paid in cash or in the form of shares.
- (2) In case dividends are distributed in the form of shares, the Company may issue a new class of shares different from existing classes of shares issued and outstanding, subject to a resolution of the general meeting of shareholders.
- (3) The dividends referred to in paragraph (1) shall be paid to the shareholders or registered pledgees recorded in the Shareholders Register of the Company as of the end of each fiscal year.

-
- (4) The right to demand payment of dividends shall be expired if the right is not exercised within five (5) years. Dividends, after the expiration of the period referred to above, shall be reverted to the Company.
- (5) The Company may pay dividends only from those fiscal years in which the carried-over loss has been replenished in full, after the commencement of local telephony services.

Chapter VIII. Supplementary Provisions

Article 47. Regulations

The Company may, with the approval of Board of Directors, adopt relevant regulations, whichever necessary, required for the operation of the Company.

Article 48. Notices

Any notice, demand, request, consent or any communication hereunder shall be made in writing (including, without limitation, by hand delivery, registered airmail, email or facsimile). <Amended on October 21, 2003>

Chapter IX. Incorporation of the Company

Article 49. Pre-incorporation Expenses

Company shall bear and reimburse, up to the sum of Thirty-five Billion (35,000,000,000) Won, all expenses incurred for the incorporation of Company, including expenses for holding road-shows for organizing the Consortium, advertisements, preparation of the Initial Business Plan, registrations, approvals and permits.

Article 50. Names and Addresses of Promoters

The names and addresses of promoters of Company are as listed at the end of these Articles of Incorporation.

Article 51. Representative of Company Prior to Incorporation

The representative promoter shall, for the time being, represent the Company during the procedures for incorporation and shall be in charge of the preparation and submission of the application for the government permit for local telephony service business.

Addenda

August 30, 1997

Article 1. Effective Date

These Articles of Incorporation shall become effective from the date of incorporation of the Company.

Article 2. Interim Provisions for the Nomination of Non-executive Directors

In applying the provisions of Article 29, Paragraph (2) hereof, if the right of the Largest Shareholder or Major Shareholders to nominate non-standing directors cannot be maintained from the time the amended Telecommunications Business Act becomes effective after January 1, 1998, or if the shareholders association cannot maintain a position similar to the Board of Directors, then the right of the Largest Shareholder and Major Shareholders to nominate non-standing directors shall be replaced by their right to nominate standing directors.

Article 3. <Deleted on August 28, 1998>

In order to form a corporation in accordance with the foregoing terms and conditions, all promoters of company have caused these Articles of Incorporation to be executed in their names and under their seals hereunto affixed.

Addendum

Sept. 23, 1997

Article 1. Effective Date

These Articles of Incorporation shall become effective from the day on which Company is incorporated.

Addenda

March 30, 1998

Article 1. Effective Date

These Articles of Incorporation shall become effective from March 30, 1998.

Article 2. <Deleted on August 28, 1998>

Addendum

August 28, 1998

Article 1. Effective Date

These Articles of Incorporation shall become effective from August 28, 1998.

Addendum

February 26, 1999

Article 1. Effective Date

These Articles of Incorporation shall become effective from February 26, 1999

Addenda

October 1, 1999

Article 1. Effective Date

These Articles of Incorporation shall become effective from October 1, 1999.

Article 2. Interim Provisions

- (1) Amendment of the provisions in respect of recommendation of non-standing directors under Article 29, Paragraph (2) shall not affect the term of office of non-standing directors who are in office at the time of enforcement of the said provision.
- (2) Amendment of the provisions in respect of appointment of the Representative Director/President under Article 29, Paragraph (9) shall not affect the term of office of the Representative Director/President who is in office at the time of enforcement of the said provision.

Addenda

March 17, 2000

Article 1. Effective Date

These Articles of Incorporation shall become effective from March 17, 2000.

Article 2. Interim Provisions

Unless specified otherwise by these Articles of Incorporation, these Articles of Incorporation shall apply to events or matters that arose prior to the effective date. However, those matters that became effective under the previous Articles of Incorporation shall not be affected.

Addendum

March 23, 2001

Article 1. Effective Date

These Articles of Incorporation shall become effective from March 23, 2001.

Addenda

March 29, 2002

Article 1. Effective Date

These Articles of Incorporation shall become effective from March 29, 2002.

Article 2. Interim Provisions

- (1) Any person appointed as an Outside Director at the regular general meeting of shareholders in 2002 shall be deemed to be nominated by the Outside Director Candidate Nominating Committee.
- (2) Any Outside Director who holds office at the Company as non-standing Directors or independent non-standing Directors at the regular general meeting of shareholders in 2002 shall be deemed to be appointed as an Outside Director by the time when his or her terms of office expires notwithstanding the provision of Article 29 (13).

Addendum

October 21, 2003

Article 1. Effective Date

These Articles of Incorporation shall be effective immediately upon the full payment of the subscription price for the new shares to be issued below par value pursuant to the resolution adopted at an extraordinary general meeting of shareholders on October 21, 2003.

Addendum

March 26, 2004

Article 1. Effective Date

These Articles of Incorporation shall be effective as of March 26, 2004.

Addendum

December 16, 2004

Article 1. Effective Date

These Articles of Incorporation shall be effective as of December 16, 2004.

Addenda

March 25, 2005

Article 1 Effective Date

These Articles of Incorporation shall be effective as of March 25, 2005.

Article 2 Interim Provisions

Paragraph 1 of Article 29-2 shall also be applicable to those directors that were appointed prior to the effective date of these Articles of Incorporation.

Addendum

March 24, 2006

Article 1 Effective Date

These Articles of Incorporation shall be effective as of March 24, 2006.

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Memorandum of Understanding

This Memorandum of Understanding (MOU) was signed between the below parties on February 6, 2006.

(A)

- (i) Celrun Inc. (referred as “Celrun” hereafter) whose headquarters is located at 1 Ho 2nd Fl. 1412-8 Yong-Bong Dong, Buk Gu, Gwangju
- (ii) Kim Young-min (referred as “Kim Young-min” hereafter) whose address is 108-901 Moonjung Ramian Apt. 1 1-12 Moon-Jong Dong, Songpa Gu, Seoul
(together with Celrun, referred as “Celrun party” hereafter)

(B) hanarotelecom Inc. (referred as “purchaser” or “Hanaro Telecom” hereafter) whose headquarters is located at 17-7 Yeoido Dong, Youngdeongpo Gu, Seoul

(C) Celrun TV Inc. (referred as “the Company” or “Celrun TV” hereafter) whose headquarters is located at 3rd Fl. Shindo Bldg. 10 Garak Dong, Songpa Gu, Seoul

Celrun, Hanaro Telecom and Kim Yong-min, the CEO and shareholder of Celrun TV, agree and shall carry out the following concerning transfer of part of Celrun TV stocks and new Celrun TV stock issues in the future.

Article 1 [Purpose]

- A. The parties of this MOU shall sign a “contract” (referred to the “Contract” concerning transfer of Celrun TV stock and accompanying business cooperation contract between Hanaro Telecom and Celrun) after negotiating and agreeing on the terms and conditions of the stock transfer and new issuances by Celrun TV, business objectives of Hanaro Telecom and other specific cooperation details.
- B. This MOU is signed to agree on the basic matters before concluding the Contract mentioned above. Other than matters that the parties agree to change, this MOU shall be the basis of the Contract.

Article 2 [Issued Stocks and Transfer of Stocks]

- A. Pursuant to the Contract, Celrun party shall transfer (or guarantee the transfer of) to Hanaro Telecom the following type and amount of stocks:

-
- 1) issuer: Celrun TV Inc.
 - 2) the total number of issued stocks: 1,200,000 shares
 - 3) type of stock: registered common stock (par value per share: 5,000 KRW)
 - 4) amount of stock transfer: 780,000 shares (representing 65%)
 - a) 640,000 Celrun TV shares owned by sellers (appendix 1 (ii) or (xxxiv) shareholders of “Celrun TV Shareholder List”) other than Celrun
 - b) 140,000 Celrun TV shares owned by Celrun
- B. Under Paragraph A, the purchase price of the stocks that will be acquired is 5.5 billion KRW, and Celrun party shall guarantee the transfer of the stocks to Hanaro Telecom in the above Paragraph A.
- C. Celrun party, under the amount of transfer stocks in Paragraph A, must arrange to have each shareholder transfer Celrun TV stocks to Hanaro Telecom by the Contract signing date. If a shareholder cannot transfer its stocks, Celrun shall instead transfer the Celrun TV stocks it owns excluding the ones in b) of 4) in Paragraph A. or must persuade the shareholder, and any incremental costs in this process must be covered by Celrun.
- D. Celrun party, on behalf of the seller, must guarantee the seller’s stock transfer and shall be jointly liable for damages if the transfer is not fulfilled.

Article 3 [Payment of Stock Purchase Price]

- A. Celrun shall write a contract containing the number and purchase price of to-be-transferred common stocks defined in Paragraph A of Article 2 for each relevant shareholder, receive signature on each contract from relevant shareholder and submit them to Hanaro Telecom before the Contract signing date.
- B. Hanro Telecom shall receive execution of contracts stated in Paragraph A from all shareholders related to stock transfer, and make payment for stocks transferred according to the purchase price and payment method under the Contract if the number of Celrun TV stocks and equity ratio to be owned by Hanaro Telecom meet conditions defined in Paragraph A of Article 2.
- C. Each shareholder to transfer stocks shall transfer the title to Hanaro Telecom and Celrun shall guarantee such transfer. After the completion of each transfer of title, Hanaro Telecom, under Paragraph B above, shall make payment for stocks transferred to each shareholder based on the Contract.

Article 4 [Celrun TV's New Stock Issuance]

- A. Hanaro Telecom and Celrun shall agree upon the issuance of new Celrun TV stock worth 20 B KRW by the end of March, 2006. The payment date for such new issuance shall be by the end of March, 2006 for 10 B KRW and by the end of June, 2006 for the other 10 B KRW.
- B. Of the newly issued stock, Hanaro Telecom shall subscribe for 13 B KRW worth of stocks (65%) while Celrun or the parties designated by Celrun (not more than 4 persons including Celrun party) shall subscribe for 7 B KRW (35%) worth of them. The Celrun TV equity ratio owned by Celrun shall not be less than 25%.
- C. Hanaro Telecom and Celrun party shall participate in new stock issuance according in proportion to their shareholdings.
- D. If any revision of Articles of Incorporation is required for new stock issuance stated in Paragraph B above, Hanaro Telecom and Celrun shall cooperate with each other.
- E. If any of Paragraph A or D is not implemented due to legal limitations or otherwise, Hanaro Telecom and Celrun shall not be legally liable.

Article 5 [Management of Celrun TV]

- A. When Celrun TV's stock transfer to Hanaro Telecom is complete according to Article 2, Hanaro Telecom shall have the right to appoint Celrun TV's CEO, Chairman of the board and members of Board of Directors (including standing directors) and statutory auditor (number of members Hanaro Telecom can appoint shall be commensurate with its equity ratio), and Celrun shall exercise voting rights as director and shareholder for such appointment.
- B. Celrun shall revise the number of directors from the current 3 — 5 to 3 — 6 in the Articles of Incorporation before signing the Contract.
- C. Celrun has director appointment rights commensurate with its equity ratio as follows.
 - 1) when equity ratio is 25% or more: right to appoint 2 board members
 - 2) when equity ratio is not less than 15% and less than 25%: right to appoint 1 board member
- D. Even after signing of the Contract and completion of stocks transfer, unless the current management of Celrun TV evidently violates law or significantly undermines business state, the current management, including Kim Young-min, shall be allowed to continue to run the business under the condition of Paragraph C above.

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- E. The current management acknowledges the importance of financial controls of Celrun TV. Hanaro Telecom shall designate the CFO of Celrun TV after the Contract signing and stock transfer completion.
 - F. Hanaro Telecom, Celrun and CelrunTV shall coordinate to agree on new stock issuance if it can reduce equity ratio under the MOU herein and the Contract (Under Article 2. A. 4), Hanaro Telecom's equity is ratio 65% and Celrun's 35%).
 - G. Hanaro Telecom and Celrun understand the importance of content provision and programming, and help each other in forming management supporting this.
 - H. Celrun, its affiliates and those with special relationship with Celrun shall neither be in the industry similar to or same as the one of Celrun, nor shall they assist a third party to enter the industry (except Celrun's supply to third parties of set top boxes with different specifications from those provided to Celrun TV).

Article 6 [Stock Transfer and Validity]

- A. Hanaro Telecom can exercise all rights as shareholder of the transferred stocks after completion of transfer of the stock title in the shareholder registry and of Hanaro Telecom's stock purchase price payment under Article 3. Celrun shall represent and warrant the valid title of the stocks.
- B. Celrun shall deliver to Hanaro Telecom transfer subject matter defined in Article 2 and various documents needed for transfer of their title from Celrun and other shareholders concurrently with receiving purchase price payment on due payment date.

Article 7 [Preconditions for the Contract Signing]

- A. Hanaro Telecom and Celrun shall make commitment to and reflect in the Contract items as listed below:
 - 1) Hanaro Telecom, to the extent law permits, shall provide only through Celrun TV TV-portal, VOD services and IP-TV services both utilizing Internet-based TV for five years after completion of the Contract signing and stock transfer.
 - 2) Hanaro Telecom shall upgrade networks, provide sales and human resources support and make other efforts to help Celrun TV provide services stated Paragraph A. 1) above.
 - 3) Celrun, without Celrun TV approval, cannot provide other domestic

companies with Celrun TV-owned head-end platform (middleware, EMS, DRM, P2P solution), set top boxes (referred to as "STB" hereafter) etc (referred to as "Celrun TV solution" hereafter).

- 4) Celrun shall be in charge of overseas supply of Celrun TV solution and of overseas business utilizing Celrun TV solution.
- 5) When Hanaro Telecom's broadband Internet subscriber uses services stated in 1) above, Hanaro Telecom and Celrun TV shall share ownership of the subscriber regarding the service, and shall share subscriber information, to the extent permitted by law, with Hanaro Telecom legally liable and responsible to the subscriber.
- 6) Revenue coming from providing services in 5) above shall revert to Hanaro Telecom.
- 7) Hanaro Telecom shall carry out sales and subscriber acquisition activities regarding services in 1) above except B2B cases.
- 8) Celrun TV shall have sole ownership on other broadband internet company subscribers using services stated in 1).
- 9) Celrun TV shall be supplied with STB only by Celrun for 2 years after the Contract signing under the condition that i) Celrun TV wants STB supply, ii) Celrun charges the lowest price to Celrun TV among others provided with STBs with similar specifications to Celrun TV's and iii) Celrun meets Celrun TV's technology specifications and other purchase requirements. Celrun shall deliver STBs to Celrun TV in a phased manner in accordance with subscriber acquisition trend.
- 10) Celrun shall deliver to Celrun TV by the end of May in 2006 outstanding STB volume (remaining STBs to be supplied by Celrun to Celrun TV based on commodity supply contract signed as of September 20, 2005), and the volume of STBs by version to be supplied shall be determined through consultation of the two parties hereto. If STBs to be supplied are 1st version (STB specifications and features under the contract signed by Celrun and Celrun TV before December 31, 2005), upgrade of functionality stated in (b) or (d) of 14) below shall be implemented by the end of May, 2006 notwithstanding the terms in the previous contract.

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- 11) Celrun shall not discontinue, without consent from Celrun TV, supplying STBs or after-sale services for head-end platform and STBs as long as Celrun TV provides the services set forth in subparagraph 1).
 - 12) Unless special functions are added to STBs in the future, Celrun may increase the unit price of STB only by the level of the average annual increase of similar STBs. If STBs are provided by lease, Celrun shall cooperate as much as possible to ensure that the prime rate of interest on STB lease will be offered to Celrun TV.
 - 13) If there are price-reducing factors (bulk purchase, a decrease in the price of STB components, etc.) for the STBs that Celrun supplies to Celrun TV, Celrun shall immediately lower its STB unit price.
 - 14) With respect to the STBs supplied by Celrun to Celrun TV, Celrun shall complete the development of functions specified in items a through d by the end of March 2006, and use its best efforts to complete the development of functions specified in items e and f by the end of March 2006. Ownership on such products and functions shall be held by Celrun TV, and relevant development expenses shall be included in the outsourcing agreement for the development of IP STB (the "IP STB Development for Television Service of Celrun" signed between Celrun TV and Celrun on September 20, 2005);
 - a) embedded digital broadcasting tuner (ATSC reception)
 - b) advertising scheduler
 - c) Internet-based video-on-demand functionality for television set (streaming play and multicasting support)
 - d) Network-PVR
 - e) MP (Multimedia Play, DivX)
 - f) Karaoke
 - 15) In case Internet-based IP-TV service provided via TV set will be permitted under relevant laws, Celrun shall guarantee that the STBs supplied to Celrun TV can provide Internet-based IP-TV service provided via TV set without a hardware upgrade and, if an improvement of STB function is needed for the IP-TV service, bear the expenses for the improvement.
 - 16) Celrun and Celrun TV shall do their utmost to explicitly stipulate, in any

agreements regarding content copyright, that the subject of service shall be copyrighted content for Internet-based service provided via TV set.

- B. Celrun shall implement, as a condition precedent to the Contract, matters specified in the following paragraphs, prior to the date of purchase price payment as stated in Article 2 of the Agreement:
- 1) hanarotelecom shall be able to reasonably check, prior to the payment date, the feasibility of obtaining domestic and international patents applied for under the name of Celrun TV.
 - 2) Celrun shall transfer to Celrun TV the head-end development technology and staff needed for operating the services of Celrun TV (Celrun shall receive written consent from the staff). The time of transfer shall be determined through communications between the two companies. Celrun shall guarantee that the transferred staff will not be able to return to Celrun and its affiliated companies (including existing and new companies) for two years from the date of transfer. Celrun and Celrun TV shall indemnify hanarotelecom against all relevant legal problems.
 - 3) Celrun shall guarantee that intellectual property rights on middleware, EMS, P2P, DRM and operation know-how relating to the business of Celrun TV, ownership on STBs for Celrun TV service and domestic and international patents (ten patents), and other relevant intellectual property rights are exclusively held by Celrun TV, and explicitly reflect this in relevant agreements.
 - 4) Celrun shall guarantee that no intellectual property rights specified in the foregoing paragraph 3) are registered with (including those applied for) or owned under the name of Celrun or a third party. Otherwise, Celrun shall immediately transfer such intellectual property rights to Celrun TV without charge and bear all related expenses.
 - 5) Celrun shall sell its stake in Ontown to Celrun TV at an appropriate price after an objective evaluation of the stake.
 - 6) Upon executing the Contract, Celrun TV shall enact or amend, prior to the date of signing the Contract, all relevant rules including its articles of incorporation and regulations on the board of directors in order to form the board of directors and manage the company in accordance with Article 5 of this MOU, and Celrun shall exercise its voting rights for such purpose.

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- C. The Contract shall be executed within one month from the date of signing this MOU unless there are reasons specified in Article 10 of this MOU.
 - D. The Contract shall include representations, guarantees and conditions precedent customary for this type of transaction.

Article 8 [Tax, etc]

Taxes and dues relating to the transfer and acquisition of shares shall be borne by each party.

Article 9 [Confidentiality]

- A. The parties hereto may not reveal, without written agreement among the parties, the existence and contents of this MOU, except the case when public disclosure and release of such information is required by each party, its representative or laws.
- B. All information regarding this MOU shall be disclosed after agreement among the parties.
- C. The foregoing paragraphs shall be deemed effective after the period set in Article 11 of this MOU.

Article 10 [Liabilities]

- A. In case of failure to implement matters set forth in this MOU, hanarotelecom and Celrun shall compensate for the loss or damage to the other party.
- B. With respect to the implementation of obligations under this MOU, if either party fails to obtain licenses or approvals from government agencies under the Monopoly Regulation and Fair Trade Act and other relevant laws, the party shall not be held liable for the loss.

Article 11 [Term of the MOU]

This MOU shall be effective for three months from the date of signing this MOU or until the date of the Contract, whichever comes first.

Article 12 [Jurisdiction]

Any dispute arising from or in connection with this MOU between parties hereto shall be settled in the Seoul District Court.

Article 13 [Governing Law]

Matters not specified in this MOU shall be governed by the Commercial Code and other relevant laws of the Republic of Korea.

IN WITNESS whereof, the MOU shall be signed by the parties in duplicate, each party retaining one copy thereof, respectively.

hanarotelecom Inc.

Asiaone Bldg., 17-7 Yeouido-dong, Youngdeungpo-gu, Seoul, Korea

Chairman of Special Management Committee: Byung-Moo Park

_____(signed) _____(sealed)

Young Min Kim

108-901, Samsung Munjeong-dong Raemian Apartments, 1-12 Munjeong-dong,

Songpa-gu, Seoul, Korea

_____(signed) _____(sealed)

Celrun Co., Ltd.

1412-8 Yongbong-dong, Buk-gu, Gwangju, Korea

(Seoul branch: Celrun Bldg. 7th floor, 36 Garak-dong, Songpa-gu, Seoul, Korea)

Representative Director: Young Min Kim

_____(signed) _____(sealed)

Celrun TV

Sindo Bldg. 3rd floor, 10 Garak-dong, Songpa-gu, Seoul, Korea

Representative Director: Young Min Kim

_____(signed) _____(sealed)

<DOCUMENT>
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<DESCRIPTION> EX-4.2 Business Cooperation Agreement
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Business Cooperation Agreement

This Business Cooperation Agreement (“the Agreement”) entered into this 6th day of March 2006, by and among hanarotelecom, inc. (“hanarotelecom”) whose main office is located at Asiaone Bldg., 17-7 Yeouido-dong, Youngdeungpo-gu, Seoul, Celrun Co., Ltd. (“Celrun”) whose main office is located at 1412-8 Yongbong-dong, Buk-gu, Gwangju and CelrunTV (“CelrunTV”) whose main office is located at Sindo Bldg., 10 Garak-dong, Songpa-gu, Seoul (hereinafter individually referred to as a “Party” and collectively as the “Parties”),

WITNESSETH THAT;

WHEREAS, hanarotelecom is a shareholder of CelrunTV, who owns 780,000 registered common shares with par value of Won 5,000 each, or 65.0% of the total outstanding shares with voting rights of CelrunTV as of the purchase date set forth in the Stock Purchase and Change of Control Agreement (“CelrunTV Stock Purchase Agreement”) entered into this 6th day of March 2006, by and among hanarotelecom, Celrun, CelrunTV and Young Min Kim whose address is 108-901, Samsung Munjeong-dong Raemian Apartments, 1-12 Munjeong-dong, Songpa-gu, Seoul (“Young Min Kim”); and

WHEREAS, Celrun is a shareholder of CelrunTV, who owns 420,000 registered common shares with par value of Won 5,000 each, or 35.0% of the total outstanding shares with voting rights of CelrunTV as of the purchase date set forth in the CelrunTV Stock Purchase Agreement; and

WHEREAS, the Parties wish to sign the Agreement as a condition precedent to stock purchase stipulated in subparagraph (g), paragraph 4.1, Article 4 of the CelrunTV Stock Purchase Agreement and have agreed that mutual cooperation on TV-Portal and IP-TV services is the best way to achieve efficient management of CelrunTV and maximize shareholder value based on the efficient management; and

WHEREAS, Celrun and hanarotelecom shall do their utmost to develop the business of CelrunTV and maximize profits not to undermine the profits of

CelrunTV for their own interest;

NOW, THEREFORE, the parties hereto agree as follows:

Article 1 (Provision of Services)

- 1.1 hanarotelecom shall provide its broadband Internet subscribers with TV-Portal service, Internet-based TV video-on-demand, or VOD, service and Internet-based IP-TV service (the “Services”), sign the Terms of Service with the subscribers (including the case where provisions regarding the Services are inserted into the terms and conditions regarding the broadband Internet access service) and be subject to the rights and obligations of the Terms of Service.
- 1.2 hanarotelecom shall not, without consent from CelrunTV, transfer the agreement with subscribers relating to the service stated in paragraph 1.1 (the “Subscribers”) to a third party, except where CelrunTV is merged into hanarotelecom or where hanarotelecom is merged into a third party or engages in a transfer of business.
- 1.3 Revenues accrued from the provision of the Services as stated in paragraph 1.1 shall be recognized as revenues of hanarotelecom.
- 1.4 To the extent permitted by relevant laws, Celrun TV may provide the Services to B2B subscribers and broadband Internet subscribers of Internet service providers other than hanarotelecom, sign the Terms of Service directly with the subscribers and be subject to the rights and obligations of the Terms of Service.
- 1.5 Revenues accrued from the provision of the Services as stated in paragraph 1.4 shall be recognized as revenues of CelrunTV.
- 1.6 In providing the Services as stated in paragraph 1.4, hanarotelecom and CelrunTV shall cooperate as much as possible to create synergy, and, as part of such cooperation, hanarotelecom’s distribution channels are, in principle, responsible for sales, service activation, maintenance and repairs

with respect to the provision of the Services stated in paragraph 1.4. However, CelrunTV may conduct sales, service activation, maintenance and repairs on its own if necessary.

Article 2 (Exclusive Use and Provision of Services)

- 2.1 To the extent permitted by relevant laws or regulations, hanarotelecom shall obtain the Services exclusively from CelrunTV for five years from the date of the Agreement unless Celrun's stake in CelrunTV becomes less than 10%.
- 2.2 hanarotelecom shall endeavor to improve its network and provide sales and staff support for the purpose of facilitating the provision of the Services.
- 2.3 Celrun shall not supply head-end platform (middleware, EMS, DRM, P2P solution, etc.) and set-top box ("STB") to which CelrunTV has the right of ownership (the "CelrunTV Solution"), without prior approval from CelrunTV, to subscribers of the Services, either directly or through a third party other than hanarotelecom or CelrunTV, in the territory of the Republic of Korea; provided that Celrun may provide the CelrunTV Solution to foreign companies doing the same or similar business to CelrunTV, and that Celrun may provide anyone with solutions and STBs different from those supplied by CelrunTV.
- 2.4 Paragraph 2.3 shall not apply if a STB lease company is supplied with STBs from Celrun in order to lease Celrun's STBs to hanarotelecom or CelrunTV.
- 2.5 hanarotelecom or CelrunTV shall be supplied with STBs exclusively from Celrun for two years from the date of the Agreement if Celrun can supply the same or similar STBs at the lowest unit price compared to other suppliers and satisfy technological standards set by CelrunTV.
- 2.6 Celrun shall not discontinue, without the consent from hanarotelecom or CelrunTV, supplying STBs or after-sale services for head-end platform and STBs as long as hanarotelecom or CelrunTV provides the Services.
- 2.7 Celrun may increase the unit price of STB, with consent from

hanarotelecom or CelrunTV, by the level not exceeding the average annual increase in STB unit price and shall immediately lower its STB unit price if there are price-reducing factors (bulk purchase, a decrease in the price of STB components, etc.) for the STBs that Celrun supplies to hanarotelecom or CelrunTV. In case hanarotelecom or CelrunTV is supplied with Celrun's STBs from a STB lease company, Celrun shall cooperate as much as possible to ensure the prime rate of interest on STB lease will be offered to hanarotelecom or CelrunTV.

2.8 With respect to the STBs used for the provision of the Services, Celrun shall complete the development to produce end products with the functions specified in subparagraphs (a) through (d) by the end of March 2006, and use its best efforts to complete the development of the functions specified in subparagraphs (e) and (f) by the end of March 2006. Intellectual property rights applied with regard to such products and functions shall be held by CelrunTV and relevant development expenses shall be included in the outsourcing agreement for the development of IP STB ("IP STB Development for Television Service of Celrun" signed between CelrunTV and Celrun on September 20, 2005):

- (a) embedded digital broadcasting tuner (ATSC reception)
- (b) advertising scheduler
- (c) Internet-based video-on-demand functionality for television sets (streaming play and multicasting support)
- (d) Network-PVR function
- (e) MP (Multimedia Play, DivX)
- (f) karaoke function

Article 3 (Subscriber Information Sharing)

3.1 hanarotelecom shall not transfer, without the consent from CelrunTV, subscriber-related information to a third party; provided that this shall not be applied if the agreement with the Subscribers is transferred in accordance with paragraph 1.2, if such information sharing is necessary in implementing the agreement on the use of information and telecommunications services, in calculating the fees for information and

telecommunications services and for statistics collection, academic studies or market analysis, if specific provisions are included in other laws and if such information is provided under agreements with other telecommunication business operators pursuant to the Telecommunications Business Act.

- 3.2 hanarotelecom and CelrunTV may, to the extent permitted by relevant laws or regulations, have access to and make use of subscriber information if either party notifies subscribers of other party or to the extent provided in the terms and conditions regarding the use of telecommunications services. In no event shall CelrunTV provide subscriber information to a third party without consent from hanarotelecom.

Article 4 (Other Terms)

- 4.1 After the date of signing this agreement, Celrun and CelrunTV shall exert their best endeavors to explicitly stipulate, in any content licensing agreements signed with a third party other than the Parties hereto, that the subject of service shall be broadband Internet subscribers provided with Internet-based content services via television set.
- 4.2 In case Internet-based IP-TV service provided via TV set will be permitted under relevant laws or regulations, Celrun shall guarantee that the STBs supplied by CelrunTV for the Services can provide Internet-based IP-TV service provided via TV set without a hardware upgrade and, if an improvement of STB function is needed for the IP-TV service, supply improved STBs without additional charge.
- 4.3 Celrun shall supply, by the end of May 2006, all STB products (which were supposed to have been supplied pursuant to a STB supply agreement between CelrunTV and Celrun dated September 20, 2005) Celrun failed to provide to CelrunTV as of December 31, 2005. The number of STBs to be supplied for each version shall be mutually agreed upon between the two parties. For the first version of STBs (specifications of STBs stated in agreements between CelrunTV and Celrun prior to December 31, 2005), Celrun shall upgrade the STBs, without charge, by the end of May 2006 to

the second version for the functions set forth in subparagraphs (b) through (d) of paragraph 3.7, Article 3 of this Agreement notwithstanding provisions in the existing agreement.

- 4.4 Celrun shall assist CelrunTV in obtaining contents under favorable conditions from Ontown Co., Ltd. whose main office is located at Jeongwha Bldg., 16-15 Garak-dong, Songpa-gu, Seoul (“Ontown”) and, upon signing this Agreement, assist CelrunTV and Ontown sign a separate content supply agreement.
- 4.5 In case CelrunTV desires to sell to Ontown part or all of its stake in investment partnerships stated below, Celrun shall guarantee that Ontown will be able to purchase, without any conditions, CelrunTV’s stake in the investment partnerships for the price CelrunTV invested in each partnership:
- 4.5.1 Name: Boston Film Investment Fund
Amount of investment: Won 1,000,000,000
Date of establishment: September 23, 2005
- 4.5.2 Name: IMM Culture Contents Investment Fund
Amount of investment: Won 500,000,000
Date of investment certificate distribution: September 30, 2005
- 4.5.3 Name: Fitech-NewWave Film and Knowledge-based Service Investment Fund I
Amount of investment: Won 500,000,000
Date of investment certificate distribution: October 25, 2005
- 4.6 Celrun shall sell all of its stake in Ontown to CelrunTV at an appropriate price after an objective valuation of its stake; provided that this undertaking shall be effective until December 31, 2007.
- 4.7 In case CelrunTV issues new shares, hanarotelecom and Celrun shall, in principle, acquire new shares pro rata to the proportion of shares each company holds in CelrunTV.
- 4.8 If the articles of incorporation of CelrunTV provides that the number of

directors shall be six or less, Celrun shall have the right to appoint directors of CelrunTV as follows:

4.8.1 Celrun's stake in CelrunTV of 25% or more: appoint two directors

4.8.2 Celrun's stake in CelrunTV between 15% and 25%: appoint one director

4.9 hanarotelecom and Celrun acknowledges the importance of content supply and programming and, accordingly, shall cooperate to form a management team to undertake the tasks appropriately.

4.10 Upon expiration of the term of this Agreement, Celrun and its affiliated companies may not induce, urge or force hanarotelecom's subscribers of the Services, or have a third party carry out such activities, to cancel subscription for the service of hanarotelecom and subscribe to the service of Celrun or a third party.

Article 5 (Confidentiality)

Each Party shall not, without the prior written consent of the other Party, reveal (a) the existence, terms and contents of this Agreement, and (b) the existence and contents of any verbal or written document, covenant, letter and exchange of ideas regarding the Agreement and shall use its best efforts not to disclose such information directly or indirectly to any third party; provided that each party may disclose the information if required under relevant laws or regulations or requested by government agencies or supervisory authorities pursuant to the authority granted under relevant laws or regulations. Such information may also be disclosed to related companies, executives and employees and professional advisors who carry out the tasks relating to the transactions under the Agreement to the extent that their participation is needed.

Article 6 (Termination)

6.1 If any of the following events occurs to one Party ("Imputed Party"), the other party ("Terminating Party") may terminate the Agreement by giving written notice to the Imputed Party.

-
- 6.1.1 If the Imputed Party fails to perform the Agreement for reasons attributable to the Imputed Party and fails to remedy or perform within 14 days after having received request from the Terminating Party;
- 6.1.2 If an application for the commencement of workout, reorganization, composition or bankruptcy proceedings or an application for preservative measures under the Debtor Rehabilitation and Bankruptcy Act or other similar measures is filed against the Imputed Party or if a resolution to dissolve the Imputed Party is approved;
- 6.1.3 If the Imputed Party suspends transactions regarding its business with banks such as dishonor of checks or certificates issued or endorsed by the Imputed Party or if a seizure or provisional attachment of part of material assets is imposed and the provisional attachment continues to be effective for 30 consecutive days; and
- 6.1.4 If a government agency issues an order of suspension or termination of business or operation (excluding an order of suspension of some functions such as an order to suspend acquisition of subscribers issued by the Korea Communications Commission) against the Imputed Party, and the order continues to be effective for 60 days.
- 6.2 Termination of the Agreement pursuant to paragraph 6.1 shall not affect any claims for compensation.

Article 7 (Indemnification)

Unless otherwise specified in the Agreement, if one Party (“Violating Party”) violates the Agreement and causes any losses to the other Party, the Violating Party shall compensate for all losses and relevant expenses (including reasonable attorneys’ fees). If a lawsuit, arbitration or similar claim is filed by a third party against the non-Violating Party due to the violation of the Agreement by the Violating Party, the Violating Party shall compensate for all losses and relevant expenses (including reasonable attorneys’ fees).

Article 8 (Change in Regulation)

- 8.1 If it becomes impossible to implement the Agreement due to amendments of the Broadcasting Act, the Telecommunications Business Act and other relevant laws or regulations or due to changes in the regulations of relevant government agencies including the Korea Communications Commission and the Ministry of Information and Communications, the Parties shall cooperate in good faith and amend the Agreement.
- 8.2 Celrun and CelrunTV shall cooperate with hanarotelecom in all matters necessary for obtaining a license or approval with respect to the Services, including in circumstances listed in paragraph 8.1.

Article 9 (Effectiveness of the Agreement)

The Agreement shall terminate and no longer be effective if the Stock Purchase Agreement signed among the Parties on March 6, 2006 is terminated or nullified for reasons attributable to one Party.

Article 10 (General Provisions)

- 10.1 The Agreement may not be changed or amended without written agreement among the Parties.
- 10.2 The Agreement constitutes the entire and only agreement among the Parties hereto with respect to the subject matter hereof, and matters not provided for by the Agreement shall be determined by separate agreements among the Parties; provided that this shall not apply to Article 9 of the Agreement; and provided further that matters not provided for by the Agreement may be governed by the CelrunTV Stock Purchase Agreement. The CelrunTV Stock Purchase Agreement shall supersede the Agreement if any provisions of the Agreement are inconsistent with or conflict with the CelrunTV Stock Purchase Agreement.
- 10.3 The Agreement or the rights and obligations under the Agreement may not be transferred to a third party without written prior agreement of other Party.

10.4 The Agreement is signed in the Republic of Korea, and shall be governed by and construed in accordance with the laws of the Republic of Korea.

10.5 Seoul Central District Court shall be the competent court with regard to any dispute relating to the Agreement, or effectiveness, interpretation, signing or execution of provisions of the Agreement.

IN WITNESS whereof, the Agreement shall be made out in duplicate, and hanarotelecom, Celrun and CelrunTV shall keep each of the Agreements.

hanarotelecom Inc.

Asiaone Bldg., 17-7 Yeouido-dong, Youngdeungpo-gu, Seoul, Korea
Chairman of Special Management Committee: Byung-Moo Park

(signed) (sealed)

Celrun Co., Ltd.

1412-8 Yongbong-dong, Buk-gu, Gwangju, Korea
(Seoul branch: Celrun Bldg. 7th floor, 36 Garak-dong, Songpa-gu, Seoul, Korea)
Representative Director: Young Min Kim

(signed) (sealed)

CelrunTV

Sindo Bldg. 3rd floor, 10 Garak-dong, Songpa-gu, Seoul, Korea
Representative Director: Young Min Kim

(signed) (sealed)

<DOCUMENT>
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Code of Ethics

Chapter 1 General Provisions

Purpose

hanarotelecom incorporated has hereby established the Code of Ethics (hereinafter referred to as the “Code”) for itself and its subsidiaries and affiliates (each a “Company”) and the Code sets forth the criteria for the actions and value judgment of the directors, officers and employees, in order to facilitate the Company’s growth into a world-class information and telecommunication firm.

Application

The Representative Director and President of the Company shall assume the overall responsibility for implementing the Code and monitoring compliance with the Code. All directors, officers and staff members of the Company shall abide by the Code.

The Representative Director and President shall strongly encourage all persons and firms engaging in various transactions with the Company to abide by the Code.

Chapter 2 Ethics toward Customers

With the firm conviction that customers are the business foundation of the Company and the very reason for the Company’s existence, all directors, officers and employees of the Company shall constantly strive to think and act from the customers’ viewpoint, and shall strive to achieve customer satisfaction.

1. To respect customers

- (1) Directors, officers and employees shall treat customers with a kind attitude and give customer satisfaction top priority.
- (2) Directors, officers and employees shall proactively collect customer opinions such as suggestions and complaints.
- (3) Directors, officers and employees shall deal with customers with integrity and shall always keep promises made to a customer.
- (4) Directors, officers and employees shall protect information related to customers and customers’ rights.

2. Employees shall provide value to customers

-
- (1) Employees shall strive to provide the value required by customers.
 - (2) Employees shall provide at reasonable prices the goods and services to meet customer needs.

Chapter 3 Ethics toward Shareholders

All directors, officers and employees shall in good faith provide all such information as is necessary for the shareholders to invest with confidence, and shall protect the interest of the shareholders through efficient management activities.

1. Provision of information in good faith

- (1) Directors, officers and employees shall respect the rights of shareholders and reasonable requests and maintain transparent management and an accurate accounting record system to establish a mutually reliable relationship.
- (2) Directors, officers and employees shall spontaneously provide information on the present conditions and prospects of the Company to assist the shareholders in making investment decisions.

2. Protection of shareholders' interests

- (1) Directors, officers and employees shall always strive to provide profits for shareholders through reasonable investment and efficient management.
- (2) Directors, officers and employees shall use their best efforts to reduce expenses and improve on productivity.

Chapter 4 Ethics toward Nation and Society

All directors, officers and employees of the Company shall observe all relevant laws and regulations in each jurisdiction in which the Company does business, and shall contribute to the development of society through continuing innovation and competitiveness.

1. Compliance with laws

Directors, officers and employees shall observe all laws, rules, regulations and orders of the territory and country in which the Company conducts its business.

2. Contribution to technical development and economic growth

-
- (1) Directors, officers and employees shall strive to develop and disseminate high-tech technologies for the development of the nation.
 - (2) Directors, officers and employees shall contribute to economic stabilization and growth through the creation of jobs and faithful payment of relevant taxes.

3. Service and return of profits to society

- (1) Directors, officers and employees shall contribute to the development of the nation and the local community through the returning of corporate profits.
- (2) Directors, officers and employees shall contribute to social development by encouraging and participating in healthy social welfare service activities.

4. Avoidance of political involvement

- (1) Directors, officers and employees shall not provide or use any aspect of the Company's organization, funds, manpower or facilities for political purposes.
- (2) Directors, officers and employees shall not engage in speeches or activities supporting or objecting to a particular political party, organization or candidate, and will not coerce other directors, officers and employees of the Company into engaging in such speeches or activities.

5. Protection of the environment

Directors, officers and employees shall strive to prevent environmental pollution and protect nature through environment-friendly management for environmental conservation.

Chapter 5 Ethics toward Business Partners

All directors, officers and employees shall give equal opportunities to business partners and shall pursue mutual prosperity through transparent and fair transactions. In this Code, "business partner" or "partner" means an entity which conducts or seeks to conduct business with, or is a competitor of, the Company.

1. Provision of equal opportunities

- (1) Directors, officers and employees shall provide qualified companies the opportunity to participate as partners.
- (2) Directors, officers and employees shall select partners by use of reasonable methods based on fair and objective examination criteria.

2. Fair dealing

- (1) All transactions shall be fairly conducted on equal footing, and neither unlawful money nor other articles, entertainment, or conveniences shall be offered or received.
- (2) Directors, officers or employees are prohibited from using corporate property or position for personal gain or otherwise unethical activities.
- (3) In the event that any of the partners offers illegal money or articles, entertainment or conveniences to any of the directors, officers or employees of the Company, the Company may impose disadvantages including the termination of the transaction with the partner involved.

3. Other unfair practices

- (1) Directors, officers and employees shall not engage in any financial transaction with partners (borrowing, guarantying, etc) independently of the Company business.
- (2) Directors, officers and employees shall not acquire any unlisted stocks of partners free of charge or on substantially advantageous conditions without the approval of the Company.
- (3) Directors, officers and employees shall not serve as an employee or in any other capacity in any partner.
- (4) Directors, officers and employees shall not disclose any information acquired in connection with the Company business to unauthorized persons either in or outside of the Company.

Chapter 6 Matters to be adhered to by Directors, officers and employees

Directors, officers and employees shall observe the Company policies, respect each other and strive for the development of the Company through fair performance of their duties.

1. Protection of the secrets and properties of the Company

- (1) Directors, officers and employees shall observe all Company policies as a constituent member of the Company, and shall protect all information acquired in the course of performing their duties.
- (2) Directors, officers and employees shall utilize the Company properties efficiently

and shall not exploit them for any purpose other than official Company business.

2. Fair performance of the Company business

- (1) Directors, officers and employees shall impartially execute personnel policies on the basis of capability and quality, and shall treat other directors, officers and employees fairly based on the level of their efforts and contribution to the Company.
- (2) Directors, officers and employees shall not discriminate against other directors, officers and employees on the basis of relationship with a particular region or alumni, sex, religion or physical handicap.
- (3) Directors, officers and employees shall not use their authority and position in the Company for personal gain.
- (4) Directors, officers and employees shall maintain their integrity as directors, officers and employees and shall not damage the professional atmosphere for personal gain.

3. Relationship among Directors, officers and employees

- (1) Directors and Officers shall be responsible for implementing the Code and shall set an example, train and supervise other employees.
- (2) Superiors shall not render to their subordinates any unfair instructions or orders and shall not place their subordinates under any disadvantage.
- (3) Subordinates shall comply with the reasonable instructions of their superiors and shall exert their utmost efforts to perform the business.
- (4) Directors, officers and employees shall not engage in any pecuniary transactions nor make inappropriate requests.
- (5) With respect to congratulatory events or condolences, directors, officers and employees shall show their courtesies but shall avoid paying an excessive amount of money.
- (6) Directors, officers and employees shall not engage in any verbal or physical acts of annoyance to their superiors, colleagues or subordinates, nor shall any group of directors, officers and employees single out an individual to annoy.
- (7) Directors, officers and employees shall not engage in sexual harassment, sexual acts or sexual abuse in the Company.
- (8) Directors, officers and employees shall restrain themselves from engaging in gambling, excessive drinking or conspicuous consumption which may jeopardize the smooth business execution of other directors, officers and employees.

4. Reporting of violations and furnishing information

- (1) When any director, officer or employee unintentionally violates the Code, such director, officer or employee shall report the same to the Ethics Committee without fail.
- (2) When a director, officer or employee violates the Code, other employees who are aware of this violation shall report the same to the Audit department.
- (3) The identity of the reporter or informer shall be thoroughly protected.

5. Obligation to complete the training course

All directors, officers and employees shall complete the Ethics Management Course at least once a year without fail.

6. Reward and Punishment

Directors, officers and employees and relevant departments that abide by the Code and contribute to the ethics management activities of the Company shall be rewarded, and those directors, officers and employees who violate the Code shall be punished after deliberation of the case.

Addenda

Article 1 (Effective Date)

This Code of Ethics shall be effective from April 1, 2003, provided that the initial three months shall be the transition period.

Article 2 (Implementation of the Code)

Enforcement of Code of Ethics shall be set forth and the Ethics Committee shall be established by the resolution of the Board Meeting to ensure that all directors, officers and employees shall implement the Code, provided, however, that the formation and operation of the Ethics Committee shall be pursuant to the provisions of the Enforcement of Code of Ethics.

Article 3 (Interpretation)

With respect to the Ethics Management activities, any and all matters not provided for either in the Code of Ethics or the Enforcement of Code of Ethics or any ambiguities in the interpretation thereof shall follow the decision or interpretation of the Ethics

Committee.

Article 4 (Relationship with Company Regulations)

To the extent that any provision of the Code of Ethics is in conflict with Company regulations, the Code of Ethics shall prevail.

Article 5 (Obtaining Written Pledges)

The Company shall obtain written pledges from all directors, officers and employees to evidence their commitment to implement the Code of Ethics.

Pledge of Compliance with Code of Ethics

Department :

Rank :

Name :

Employee Number :

I, as a director/officer/employee of hanarotelecom Inc., have been educated about the code of ethics and regulations of hanarotelecom Inc., and hereby pledge myself to comply with them faithfully.

.. 200

Pledger

(signature)

**To the Representative Director
of hanarotelecom incorporated**

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Byung-Moo Park, certify that:

1. I have reviewed this annual report on Form 20-F of hanarotelecom incorporated (the "Company").
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report.
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: June 29, 2006

/s/ Byung-Moo Park

Byung-Moo Park
Chief Executive Officer/Representative Director

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CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Janice Lee, certify that:

1. I have reviewed this annual report on Form 20-F of hanarotelecom incorporated (the "Company").
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report.
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: June 29, 2006

/s/ Janice Lee

Janice Lee
Chief Financial Officer

<DOCUMENT>
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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of hanarotelecom incorporated (the "Company") on Form 20-F for the period ending December 31, 2005, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify that to the best of our knowledge:

- (1) the Report fully complies with the requirements of section 13(a) of the U.S. Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 29, 2006

By: /s/ Byung-Moo Park

Name: Byung-Moo Park
Title: Chief Executive Officer

Date: June 29, 2006

By: /s/ Janice Lee

Name: Janice Lee
Title: Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to hanarotelecom incorporated, and will be retained by hanarotelecom incorporated and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

This certification will not be deemed "filed" for purposes of Section 18 of the U.S. Securities Exchange Act of 1934, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the U.S. Securities Act of 1933 or the U.S. Securities Exchange Act of 1934 even if the document with which it is submitted to the U.S. Securities and Exchange Commission is so incorporated by reference.