Telecom Market Liberalization :
Korea's Experience

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I Construction of Basic Telecom Network

▮ Construction of Basic Telecom Network (1980's)

- *Primary concerns in providing basic telephony service*
  – Construction of basic telecom network
  – Operational efficiency

- *Sources of funding*
  – Government budget
  – Purchasing obligation of Telephone bonds (1979)
  – High installation fee

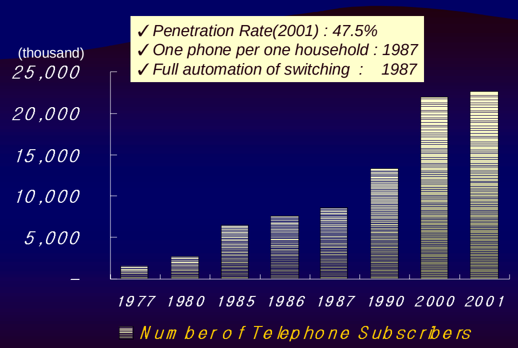
▮ Construction of Basic Telecom Network (1980's) (continued)

- *Development of technology*
  – Competition between foreign vendors
  – Localization of switching equipment (1986)
  – Nationwide electronic switching (1987)
  – Liberalization of CPE purchase (1981)

- *Operation by corporation*
  – Establishment of Korea Telecom Authority(1981)
  – Separation of specialized service operators from KTA
    - Dacom: Data communication service (1982)
    - Korea Mobile Telecom: Wireless service (1983)
    - Korea Port Telephone (1985)

▮ Effect of Government's Actions in 80's

- *Rapid diffusion in basic telephony service*



II Competition & Privatization

Introduction of Competition Regime (1990's)

- *Gradual introduction of competition in basic telecom services*
  - International : Dacom(1991), Onse(1997)
  - Long-distance : Dacom(1995), Onse(1999)
  - Mobile : Shinsegi(1994), 3 PCS service operators(1996)
  - Local : Hanaro(1999)
- *Full liberalization of value-added service*
  - From registration to notification(1995)
  - Elimination of limitation on foreign ownership(1994)

Effective Competition (2000~present)

- *Establishment of full scale competition*
- *Market restructuring*
  - High market concentration in major telecom sectors
  - M&A's in telecom business
  - Selection of 3 IMT-2000 service operators (2000~2001)

[Telecom Market Structure]

Local (2)	KT (98%)	Hanaro (2%)	
Long-distance (3)	KT (85%)	Dacom (13%)	Onse (2%)
International (3)	KT (58%)	Dacom (26%)	Onse (16%)
Leased Line (14)	KT (71%)	Powercomm (9%)	Others (20%)
Broadband (7)	KT (50%)	Hanaro (25%)	Others (25%)
Mobile (3)	SKT (50%)	KTF (35%)	LGT (15%)

(first half of 2001)

Effective Competition (2000~present) (Continued)

- *New regulatory framework for effective competition*
  - Price Regulation
  - Local Loop Unbundling
  - Number Portability
  - Interconnection & Access Charge
  - Accounting System
  - Roaming

Privatizing KT

- *Financial Status & Market Shares*

[Financial Status]

	End of 2000
Operating Revenues	8,146.9
Operating Expenses	7,399.7
Net Earnings	797.2
Total Stockholder's Equity	9,018.6
Debt Ratio	103.3%

(millions of dollars)

[Market Shares]

	MS of KT
Local	98%
Domestic long-distance	85%
International	58%
Leased Line	71%
Broadband Service	50%

(first half of 2001)

Privatizing KT (continued)

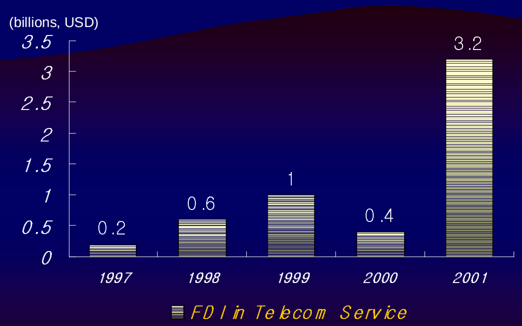
- *Objective*
  - Efficiency and competition
- *KT's Privatization*
  - Listed to Korea Stock Exchange (Dec., 1998)
  - Issued DR(Depository Receipt) to foreign equity market (May, 1999 and June, 2001)
  - Induced strategic foreign investment (amount of shares : 11. 8%, Dec., 2001)
  - Ownership structure
    - Government(28.4%), Foreign shareholders(49%)
- *Plan*
  - Complete privatization by June 2002

Market Access of Foreign Investors

- *3 months~2 years earlier than WTO Agreement schedule*

		Before 1998	WTO Concession Schedule (1997.2.15)	Currently
Limitation on Aggregate Foreign Ownership	KT	Prohibited	20% from 1998	33% from July 1998
			33% from 2001	Expanded to 49% from April 2001
	Other Carriers	Wired: Prohibited Wireless:33%	33% from1998	33% from 1998
			49% from 2001	49% from July 1999
Limitation on Individual Ownership	KT	1%(only Koreans)	3% from 1998	15% from 1999
	Other Carriers	Wired:10% Wireless:33%	Wired:10% Wireless:33%	Lifted in1998
Largest Foreign Shareholder	KT	Prohibited	Prohibited	Prohibited
	Other Carriers	Prohibited	Permitted from1999	Permitted from 1999
Resale	Voice Resale	Prohibited	49% from 1999 100% from 2001	49% from 1999 100% from 2001
	Other	No limits	100% from 1998	100% from 1998

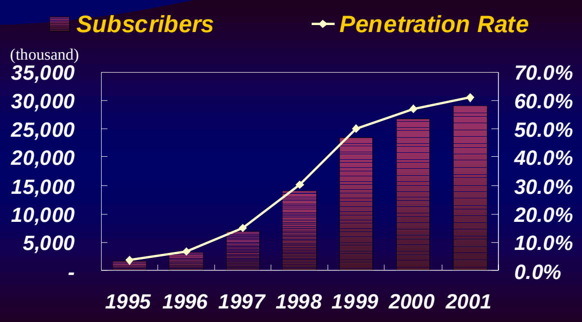
Market Access of Foreign Investors (continued)



III Mobile Telecom & Broadband Internet Services

Mobile Telecom Service

- *Rapid growth over the past decade*



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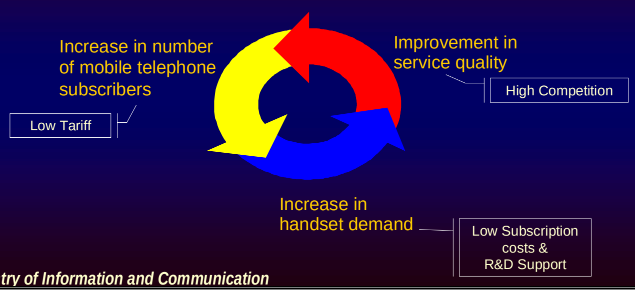
Mobile Telecom Service (continued)

- *Success Factors*
  - High competition
  - Low tariff and subscription costs
- *Virtuous cycle between operators and vendors*



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Mobile Telecom Service (continued)

- *2G CDMA service*
  - First country to commercialize CDMA service(1996)
  - Leader of CDMA technology
- *3G CDMA service*
  - First country to commercialize CDMA2000-1x service (Oct., 2000)
  - Number of CDMA2000-1x service subscribers
    - 4.2 million (14.4% of mobile service subscribers, end of 2001)

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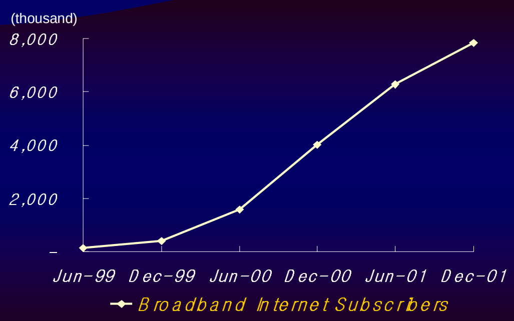
Broadband Internet (BI) Service

- *Exponential growth in subscribers*



Broadband Internet (BI) Service (continued)

- *Success Factors*
  - High internet penetration rate(24.1 million Internet users in Nov.,2001)
  - High population density in metropolitan area
  - High market competition (7 operators)
  - Low ADSL installation cost
  - Role of the Government
    - Low-tariff policy
    - Informatization promotion policy

IV Future Plan

Tasks for Effective Competition

- *Empowering Korea Communications Committee*
  – Provision of effective competition regulatory framework
- *Local Loop Unbundling*
  – Local loop open access: first half of 2002
- *Number Portability*
  – Local: second half of 2003, Mobile: 3G service(2003)
- *Interconnection & Access Charge*
  – LRIC(Long-run Incremental Cost)
- *Accounting System*

V Experiences & Lessons

Lessons

- *Importance of Government's Role*
  – Construction of the basic telecom infra
  – Gradual introduction of competition
- *Major Policies*
  – Localization of major technologies
  – Expansion of network capacity
  – Mass demand and supply
  – Low tariff policy
- *Effective Competition*
  – Experiences in mobile and broadband services
  – Reregulation after liberalization
  – Privatization of state-owned enterprise

Thank you