

# 2Q 2019 Presentation

## [Opening] – IRO

Good Afternoon, I am Seung-Hoon Chi, KT's IRO.

This earnings release call is being web-casted via our website, and you can follow the slides as you listen in on the call.

Let us now begin KT's 2019 Q2 Earnings Presentation.

Please note that KT's earnings are presented based on consolidated financial statement under the IFRS standards.

We will begin with CFO Yoon Kyung-keun's opening remarks followed by highlights on 2019 Q2 results.

## CFO

### (Page 4) – 2Q19 Highlight

Good afternoon, I'm KT's CFO Kyung-keun Yoon.

Thank you for joining our Q2 Earnings Conference Call.

Last April, KT launched world's-first 5G services, with 5G subscribers surpassing 420thousand in just 3 months since its launch, and we are seeing growth faster than initial market expectations.

KT was ahead of others in launching a complete unlimited 5G data plan called the 'Super Plan', significantly relieving customers of any concern they may have in using data, which led to more than 82% of 5G subscribers opting for this plan. As a result, Q2 Wireless Service revenue and ARPU was up 1.1%, and 0.8% respectively QOQ, successfully rebounding since Q2 of 2018.

5G Coverage expansion also continues, for initial service quality enhancement and customer satisfaction. KT was first to open '5G Coverage Map' in Korea so that customers can use 5G services with trust. We are transparent in sharing not only number of activated base stations, but also information on in-building coverage, which we disclose every day. As of July-end there are 45thousand 339 5G BSTs activated, as 5G service coverage expands evenly across all through the nation.

We are also exploring various business opportunities in 5G B2B segment as well.

Last April, KT was first in the world to launch 'B2B 5G Plan', offering 5G network service, specialized to meet the needs of businesses.

In June we opened the 2<sup>nd</sup> KT 5G Open Lab in Pankyo, following the one at Woo-myun Dong.

We plan to cooperate with promising start-ups located in Paynkyo, in developing new technologies in next-generation media, IoT, device and many more. Through such effort, we believe we can discover creative services that combine KT's 5G infrastructure and platform.

Going forward KT will continue to enhance customer value through its number 1 5G service as felt by customers, and through 5G B2B which will bring vitality to industries. And also will lay the basis for a rebound in growth for its wireless business.

In the Internet Business, we saw continued expansion of giga internet subscribers.

Giga Internet saw 160thousand net addition in Q2, accounting for 59% of total internet subscriber base, growing to 5 million 220 thousand subscribers.

'1 G Internet' which is at the top of the quality scale, reached over 1 million subscribers, with the subscribers around premium services continuing the growth trajectory.

Thanks to growth in high-quality subscribers, Internet business revenue was up by more than 2% YoY.

IPTV business continued a double digit revenue growth, driven by growth in subscribers.

KT Olleh TV, Korea's number one IPTV service, posted a net addition of 147 thousand in Q2, with

total base at 8million 110 thousand subscribers.

Olleh TV's continuous growth is underpinned by competitive content offerings.

Olleh TV is reputed for its vast library of contents, with 240 thousand VOD titles and 256 channels.

Every week, it also offers exclusive view of Hollywood movies not screened in theatres in Korea, on top of vast amount of content and services.

Also contents geared for certain age groups like Kids and Seniors have gained positive responses.

For instance 'Kids' Land 3.0' an English education content for Kids which was launched last May, drove an increase in VOD usage rate by more than 100%.

For the OTT service, 'Olleh Tv Mobile' offers not only IPTV content, but also ultra-high-definition multi-angle contents like 'Musician Live', 'Professional baseball Live', 'VR', among other 5G based immersive contents.

IPTV will continue on its growth trajectory, driven by diverse array of contents and customized services, which will lead to higher customer satisfaction.

KT is also endeavouring to lay the basis for longterm growth in its future platform business.

First, Korea's number 1 AI platform 'Giga Genie', reported 1million 780 thousand cumulative subscribers in Q2, and we expect to possibly reach 2 million subscribers by the end of the year. In the 1<sup>st</sup> Half, there was additional device line-up introductions through Table TV, and Giga Genie LTE launch; and Giga Genie is expanding the subscriber-base as different customer segments welcome services that offer them practical assistance i.e. in education, music, commerce, real estate among others.

Also 'Giga Drive' which is number 1 auto-platform in the domestic market, saw its cumulative subscriber surpass 1 million in Q2, from domestic and foreign car manufacturers.

There was stronger cooperation with 14 domestic and foreign automobile brands, and most recently together with Renault Samsung Motors, we launched 'Easy Link' in-vehicle infotainment system, enabled with AI Giga Genie services.

We will expand on the 5G based in-vehicle infotainment service, and further upgrade Connected Car service in the 5G era, including developing remote vehicle command and control systems, and operating self-driving shuttles.

KT also was first in the world to launch a blockchain development platform called 'KT Giga Chain' applying blockchain to a commercial network.

We are spearheading the move to make blockchain-based service more prevalent in areas such as security, finance, logistics and local currencies.

We expect to see greater application of blockchain in the 5g hyper connected era, which will entail explosive growth in security related issues.

KT will continue to secure sustainable growth engine in future platform businesses including AI, Smart Energy, Converged Security and Smart Mobility among others.

With that I now move on 2019 Q2 earnings results.

## **(Page 4) – Income Statement**

2019 Q2 consolidated Revenue, was up 5% YoY, to 6trillion 98.5 billion won.

Service Revenue, in particular, was up 1.7% YoY, coming in at 5trillion 88.2 billion won, on wireless service revenue improvement and continued growth in Internet and Media businesses.

On higher labor cost following collective bargaining agreement, and increase in initial marketing spend for 5G, Operating Profit was down 27.8% YoY, reporting 288.2 billion won.

Net Profit was down 27.6% YoY, to 203 billion won, EBITDA was down 2.4% YoY, to 1 trillion 191.3 billion won.

Next on Operating Expense.

## **(Page 5) – Operating Expenses**

2019 Q2 Operating Expense was up 7.4% YoY, reporting 5 trillion 810.3 billion won.

On 5G initial subscriber acquisition and stronger subscriber retention for fixed and wireless services, marketing expense was up 20.2% YoY.

Next is Financial Position.

## **(Page 6) – Financial Position**

Q2-end Debt to Equity ratio was 123.1 %. Net debt ratio was 26.7%.

Next is CAPEX.

## **(Page 7) – CAPEX**

Total CAPEX spend up to Q2 was 1 trillion 354.1 billion won.

Now on each business lines.

## **(Page 9) – Wireless**

Wireless Revenue was down 1.2% YoY, to 1trillion 743.4 billion won.

Of this, Wireless Service Revenue was down 0.1% YoY, to 1 trillion 643.6 billion won.

Wireless subscribers saw net addition of 220 thousand in Q2, reporting a total of 21million 540 thousand subscribers.

Next is Fixed line business.

## **(Page 10) – Wireline**

Fixed line Revenue was up 0.6% YoY, to 1 trillion 188.9 billion won, on higher broadband and lease line communications revenue, despite PSTN erosion.

Broadband Internet, in particular saw continued subscriber growth from giga internet, with its revenue up 2.3% YoY, reporting 506.1 billion won.

Next is Media/Content business.

## **(Page 11) – Media/Content**

Media/Content Revenue was up 15.9% YoY, to 689.9 billion won.

Media business, posted a growth of 11.7% YoY.

IPTV especially, recorded a revenue growth of 14.3% YoY on a KT standalone basis, driven by high-quality subscriber growth which accompanied VAS, Value-added.

Driven by growth in Genie Music subscribers, KTH's T-commerce revenue as well as positive performances from other subsidiaries, Content Revenue was up 35.1% YoY.

Next is Financial and other Services.

## **(Page 12) – Financial and others**

Financial revenue was down 1.9% YoY, to 849.8 billion won, on reduction in merchant fees for BC Card.

Other Service Revenue, was up 3.3% YoY to 616.1 billion won, on growth of IT solution and Internet Data Center business.

## **[ QA ] - IRO**

For more details, please refer to the documents that we previously circulated. We will now begin the Q&A session.

## [ Closing ] - IRO

If there are no further questions, we would now like to close our Q&A session.

Thank you very much for your questions and your interest. Once again, thank you very much for joining us despite your very busy schedules. This brings us to the end of 2019 Q2 earnings conference call. Thank you.