COMPANY INITIATION

2025. 12. 16

Tech Team

Donghwan Oh
Senior Analyst
dh1.oh@samsung.com

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Samsung SDS (018260)

AI data centers its new growth engine

- Strengthened cloud business growth potential expected due to expanded AI-related investments by affiliates including SEC, and participation in Stargate project and National AI Computing Center
- Stock price appreciation anticipated from 2026 driven by gradual revenue growth rebound, although new data center construction requires time; coverage resumed with BUY and target price of KRW 230,000

WHAT'S THE STORY?

Expectation of recovery in group IT service demand: The growth rate of Samsung SDS's IT service revenue fell to the low single digits starting in the second half of 2024 due to a slowdown in IT service demand from group affiliates. However, overall IT service revenue growth is projected to rebound to the 10% level in 2026. This recovery will be driven by a resurgence in group IT demand resulting from the semiconductor market boom and the recovery of the secondary battery industry, as well as the expansion of AI cloud adoption in the public sector.

Benefits from Samsung Group's Stargate participation: With the signing of a Letter of Intent (LOI) between Samsung Group and OpenAI for AI infrastructure construction, Samsung SDS has secured opportunities for: 1) joint development and operation of the Stargate AI data center, 2) provision of enterprise AI services, and 3) the OpenAI domestic resale business. Additionally, an expansion in group IT service orders is expected due to facility expansions following the memory semiconductor supply agreement between Samsung Electronics and OpenAI.

(Continued on the next page)

SUMMARY FINANCIAL DATA

	2024	2025E	2026E	2027E
Revenue (KRWb)	13,828	14,173	15,219	16,366
Operating profit (KRWb)	911	972	1,081	1,191
Net profit (adj) (KRWb)	790	803	922	1,036
EPS (adj) (KRW)	9,302	10,237	11,675	13,080
EPS (adj) growth (% y-y)	7.2	10.0	14.0	12.0
EBITDA margin (%)	11.0	11.2	11.2	11.1
ROE (%)	8.4	8.1	8.8	9.2
P/E (adj) (x)	13.7	17.0	14.9	13.3
P/B (x)	1.1	1.4	1.3	1.2
EV/EBITDA (x)	3.4	5.1	4.1	3.1
Dividend yield (%)	2.3	1.7	1.7	1.7

Source: Company data, Samsung Securities estimates

AT A GLANCE

BUY

Target price	KRW230,000	32.1%
Current price	**KRW174,100**	
Market cap	KRW13.5t/USD9.2b	
Shares (float)	77,377,800 (50.9%)	
52-week high/low	KRW193,500/KRW109,600	
Avg daily trading value (60-day)	KRW36.3b/ USD24.6m	

ONE-YEAR PERFORMANCE

	1M	6M	12M
Samsung SDS (%)	3.9	26.9	24.0
Vs Kospi (%pts)	1.9	-10.2	-24.4

SAMSUNG vs THE STREET

No of estimates	10
Target price	213,000
Recommendation	4.0

※ Rating: 4 < → BUY, 3 = HOLD, 2 > → SELL

Preempting the public cloud market with the National AI computing center: The Samsung SDS consortium was the sole bidder for the National AI Computing Center public offering, increasing the likelihood of final selection. The consortium includes Samsung Electronics, Samsung C&T, Naver, Kakao, and KT, and plans to establish an SPC in 2026 after selecting a preferred bidder within the year. If selected, Samsung SDS is expected to recognize partial revenue from the construction and operation of the KRW 2.5 trillion AI-exclusive data center and secure a competitive edge in future public AI projects.

Gradual valuation increase expected: We resume coverage on Samsung SDS with a BUY rating and a target price of KRW 230,000 (calculated by applying the domestic and foreign IT service peer average P/E of 20.7x to the 12-month forward EPS). Samsung SDS is expected to recover revenue growth due to expanded IT service demand from affiliates related to generative AI and has secured mid- to long-term growth engines through participation in the Stargate project and the National AI Computing Center. Given the securing of both short- and long-term growth engines, an increase in the current valuation (P/E 15.5x) is anticipated.

Resuming coverage with BUY and target price of KRW 230,000

We resume coverage on Samsung SDS with a BUY and a target price of KRW 230,000.

The investment points for Samsung SDS are: 1) Increased group IT service demand due to facility expansions by major affiliates such as Samsung Electronics. 2) Strengthened cloud competitiveness through participation in Samsung Group's Stargate project. 3) Expansion of public sector revenue resulting from winning the National AI Computing Center project. It is also necessary to consider the increased possibility of utilizing the company's KRW 6 trillion in cash holdings upon the third amendment of the Commercial Act.

The valuation burden is not high. The current share price is trading at 15.5x 12-month forward EPS, which is 0.7 SD lower than the 10-year average P/E of 22.9x and 25% lower than the global IT service peer average. In the short term, a rebound in revenue and operating profit growth is expected in 2026 due to expanded affiliate orders. In the long term, a gradual resolution of the valuation discount—which is excessive compared to peers—is anticipated as new growth engines have been secured through the Stargate project and National AI computing center participation.

Samsung SDS valuation

	(KRW)
12-month forward EPS	11,327
Target P/E (x) *	20.7
Fair value	234,916
Target price	**230,000**
Current price	173,500
Upside (%)	32.6

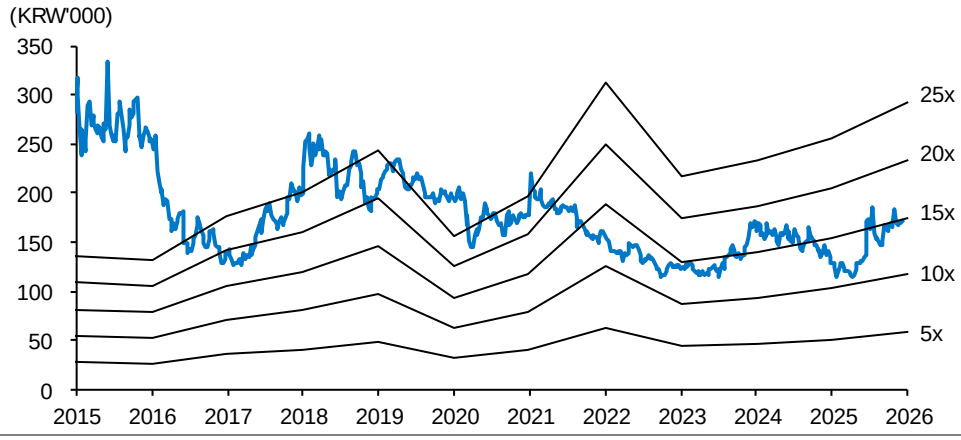
Note: * Applied 2025-2026 P/E 1:3 weighted average of global IT service peers; As of Dec 10
Source: Samsung Securities estimates

Major IT service peers P/E

(x)	2025E	2026E	Weighted average*
LG CNS	14.0	12.4	12.8
Hyundai AutoEver	37.7	31.5	33.1
Infosys	24.9	22.6	23.2
Wipro	20.5	20.3	20.3
cognizant	15.1	14.1	14.3
Average	**22.4**	**20.2**	**20.7**

Note: As of Dec 9; *2025-2026 P/E 1:3 weighted average
Source: Bloomberg

12-month forward P/E band



Source: FnGuide, Samsung Securities

Expansion of Samsung Group IT service orders

IT service orders from Samsung Group affiliates are expected to expand due to the recovery of the semiconductor and secondary battery industries. In its Q3 earnings release, Samsung Electronics stated that although the 2026 HBM production plan was increased compared to this year, it has already secured customer demand for the planned volume and is reviewing further production increases due to sustained additional demand. Consequently, Samsung Electronics has resumed construction of the P5 plant in Pyeongtaek and is accelerating semiconductor capacity expansion. The completion target for the P5 line, the fifth semiconductor production line, has been moved forward from May 2028 to May 2027 through construction efficiency. Samsung SDS plans to supply MES (Manufacturing Execution System) and AMHS (Automated Material Handling System) solutions to the P5 plant.

Samsung SDI is also known to have signed a contract to supply 10 GWh of batteries annually to Tesla for at least three years. It is expected to convert part of the Stellantis joint venture line for ESS use, and Samsung SDS is scheduled to supply MES for this ESS conversion in the North American plant.

Due to expanded facility investments by key manufacturing affiliates, related CAPEX in 2026 is projected to recover by more than 14% compared to this year. Driven by increased orders for smart factory solutions related to affiliate factory expansions, IT service revenue growth is projected to rise to 10% in 2026.

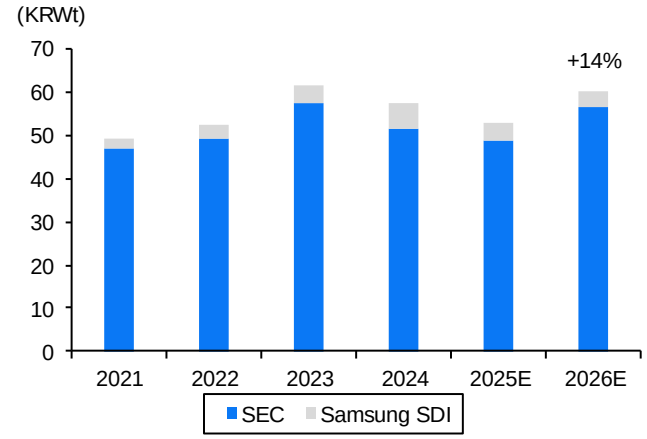
SEC: Pyeongtaek Campus

Source: Company data

Samsung SDS: US EV battery joint venture status

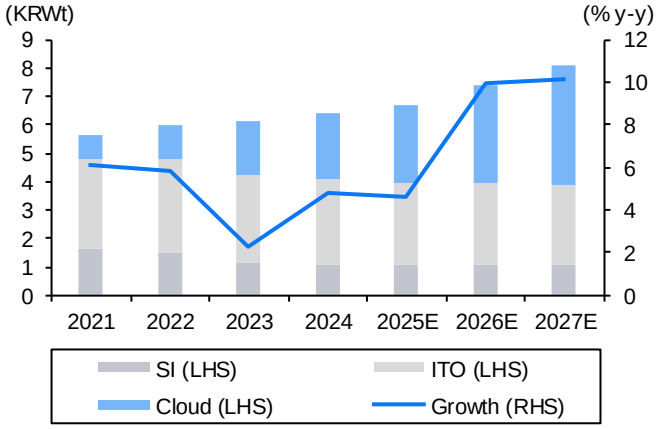
Source: Company data

Major affiliates' capex



Source: Company data, Samsung Securities estimates

IT service revenue



Source: Company data, Samsung Securities estimates

New business opportunities from Stargate project participation

Samsung SDS's cloud business competitiveness is expected to strengthen through participation in Samsung Group's Stargate project. The Stargate project involves OpenAI investing up to USD 500 billion by 2029 with SoftBank, Oracle, and others to build AI infrastructure; in Korea, Samsung and SK have agreed to participate.

- Samsung Electronics: Will supply high-performance, low-power memory required for data center construction.
- Samsung C&T / Samsung Heavy Industries: Plan to jointly develop floating data centers.
- Samsung SDS: Plans to 1) jointly design and operate OpenAI's domestic AI data center, 2) apply GPT to internal AI solutions such as FabriX and Brity Copilot, and 3) proceed with domestic reselling of OpenAI enterprise products.

If Samsung SDS jointly builds and takes charge of operating the data center with OpenAI, it is significant in that the customer base expands from group affiliates to global big tech companies. However, considering that data center construction typically takes 2–4 years, revenue contribution may take time.

The business expected to show results most rapidly is Enterprise AI reselling. OpenAI has signed enterprise AI reselling contracts with major IT service and consulting firms such as PwC, Bain & Company, and NTT DATA. NTT DATA aims for KRW 100 billion (converted) in reselling revenue by 2027 by creating AI agents for 100 large corporations. Considering the market size difference, Samsung SDS is expected to generate KRW 200–300 billion in revenue domestically through OpenAI reselling.

Samsung Group: OpenAI global AI infrastructure LOI details

Related company	Cooperation details
Samsung Electronics	Expansion of HBM supply
Samsung SDS	1. Joint design & operation of AI data center 2. Introduction of GPT models to internal AI solutions 3. ChatGPT Enterprise resale
Samsung C&T, Samsung Heavy Ind.	Joint development of floating data centers, floating power facilities, control centers

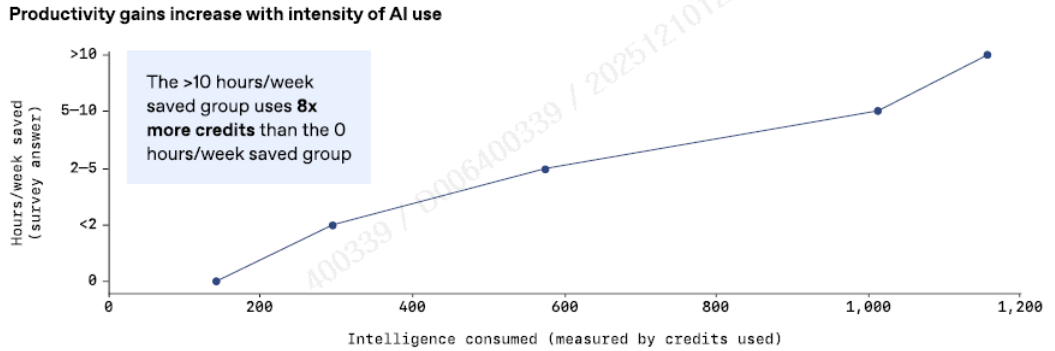
Source: Press, Samsung Securities

ChatGPT Enterprise key features

Feature	Details
Company knowledge	Retrieves, analyzes, and answers information from various tools like Slack, SharePoint, Google Drive, Github
Codex	Code generation, refactoring, workflow automation model
Agent Kit	Easily build and deploy enterprise agents
Multimodal	Supports multimodal models including image generation API, video production (Sora2), voice agent creation (GPT-Realtime)

Source: Open AI

Productivity gains increase with intensity of AI use



Source: Open AI, The State of Enterprise AI

Securing government and public AX demand with National AI computing center

Participation in the National AI computing center project is expected to expand Samsung SDS's cloud revenue and public cloud orders.

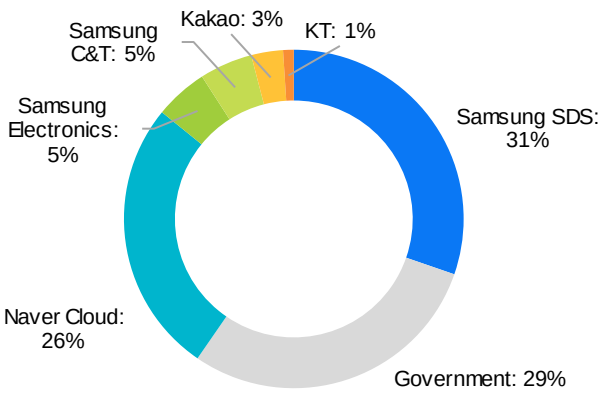
The consortium led by Samsung SDS was the sole bidder for the government's National AI Computing Center project in October and passed the technical evaluation in December, suggesting the project will proceed smoothly. Order confirmation is expected in January after reviewing the capital financing plan and policy finance support eligibility.

The National AI computing center in Haenam, Jeonnam, plans to start operations by securing 15,000 GPUs by 2028 and ultimately expand to 50,000 GPUs. Annual revenue of KRW 1 trillion is expected upon opening with the initial 15,000 GPUs. As the largest shareholder with a 30% stake, Samsung SDS plans to consolidate the consortium's performance, leading to expected cloud revenue growth from 2028. Given that 2025 cloud revenue is projected at KRW 2.8 trillion, the effect of consolidating the consortium's earnings will be significant.

Winning this order will provide advantageous opportunities in government and public AI projects, beyond just top-line growth. Due to the nature of government and public AI services where security is vital, the use of an AI computing center directly participated in and controllable by the government is essential.

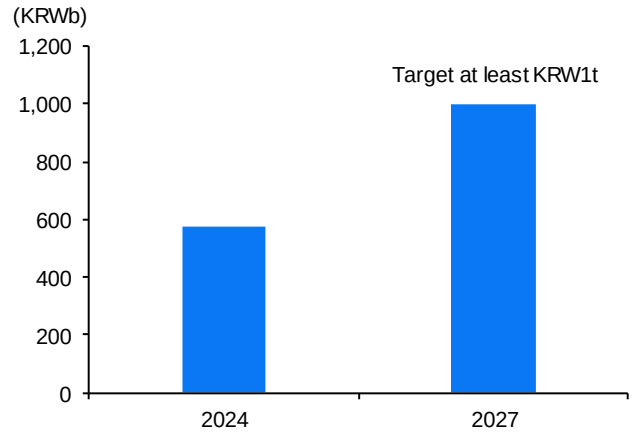
The government plans to convert 70% of major public systems to a private cloud-native environment by 2026. According to the 4th Cloud Computing Master Plan, the scale of public cloud contracts is expected to increase from KRW 576.9 billion in 2024 to the KRW 1 trillion range in 2027. Samsung SDS is expected to secure a favorable position in future government public cloud and AX projects based on this operating reference.

National AI computing center consortium stake ratio



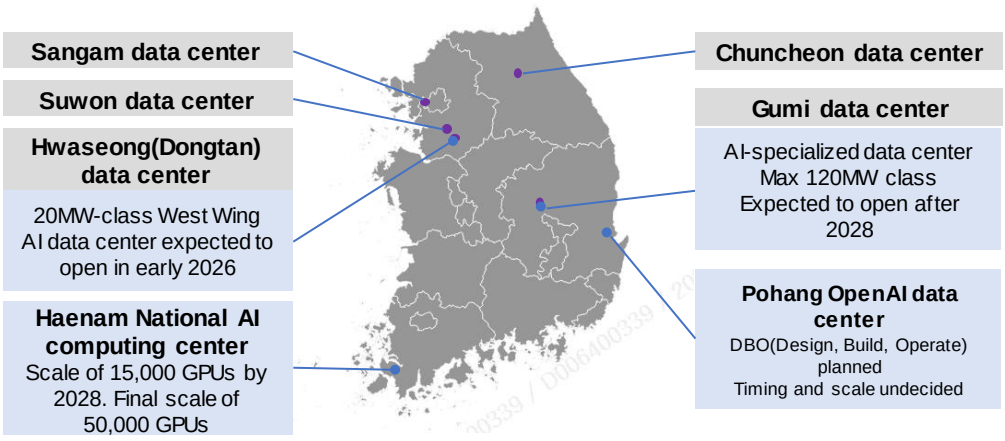
Source: Press, Samsung Securities

Public cloud digital service contracts



Source: 4th Cloud Computing Master Plan

Samsung SDS data center status and expansion plan



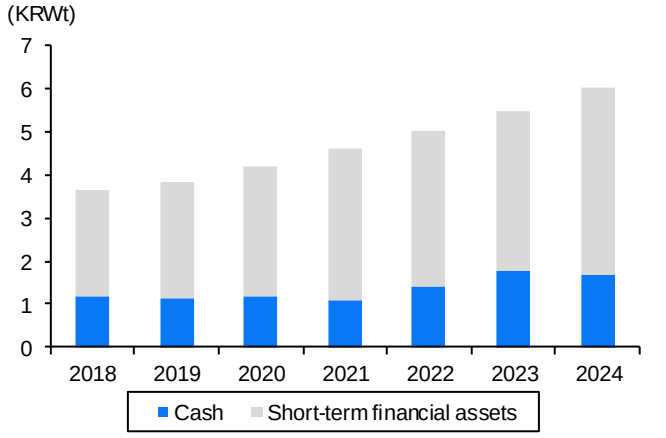
Source: Samsung Securities

Expectations for strengthened shareholder return policy

Expectations for Samsung SDS's shareholder return policy are rising as the government indicates it will process the 3rd amendment to the Commercial Act, including mandatory treasury stock cancellation, within the year. Samsung SDS holds only 0.04% in treasury stock, so the direct impact of mandatory cancellation is limited. However, as pressure on top conglomerates to participate in the government's Value-up Program increases, the possibility of utilizing Samsung SDS's KRW 6 trillion in cash holdings has risen.

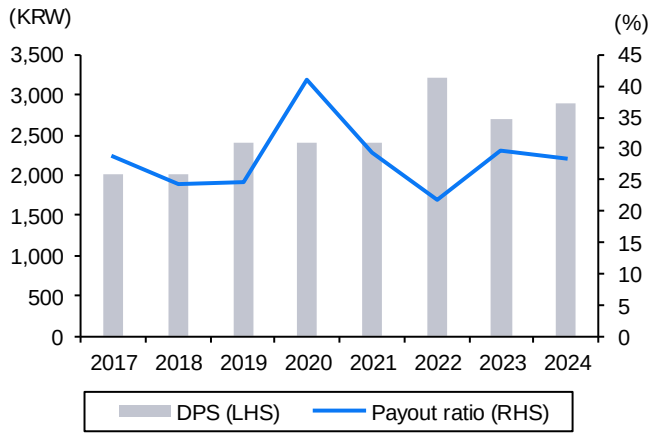
Since the company decided to maintain its existing payout ratio of around 30% when announcing its three-year shareholder return policy in 2024, the likelihood of an immediate increase in cash dividends is low. However, as the company mentioned in the 3Q25 conference call that it is reviewing various measures to enhance shareholder value and establishing mid- to long-term plans for efficient capital use, the announcement of shareholder return policies such as special buybacks and cancellations is considered fully possible.

Cash and short-term financial assets



Source: Company data, Samsung Securities estimates

DPS and payout ratio



Source: Company data, Samsung Securities estimates

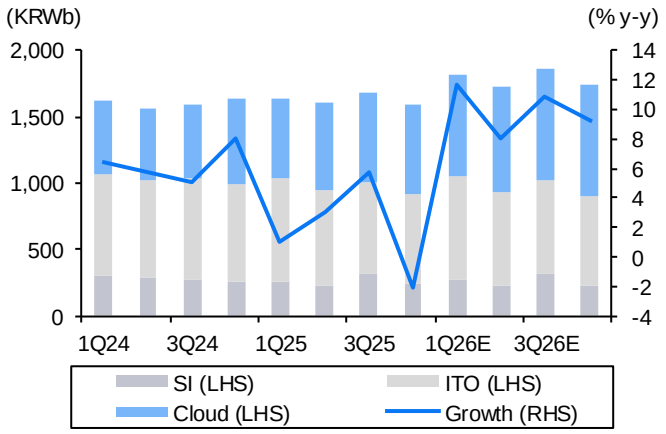
Risk factors – Time required for AI data center construction

It will take at least 2–3 years for cloud revenue to generate from the Stargate project and the National AI computing center project mentioned above. Joint data center construction and operation with OpenAI is still in the discussion stage, making the timeline uncertain, and the National AI computing center also aims for completion in 2028. Significant revenue generation is projected for 2029.

Immediate events driving cloud revenue growth in 2026 are limited to: 1) expanded orders from affiliate factory expansions, 2) opening of the Dongtan Data Center West Wing, and 3) Enterprise ChatGPT reselling. While 10% revenue and operating profit growth can be expected from these, market expectations for the speed of cloud business growth need adjustment.

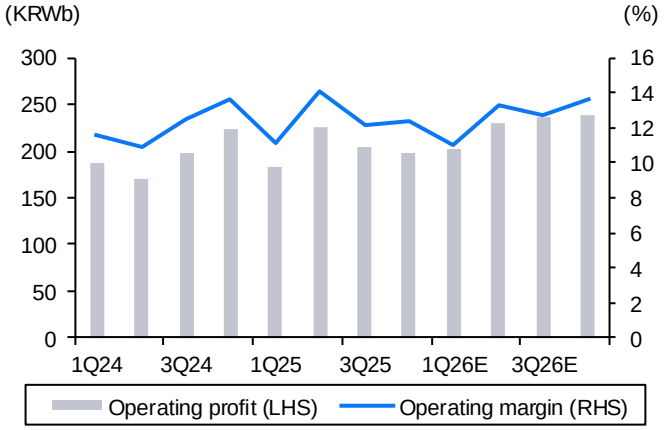
Currently, Samsung SDS is in the process of expanding its customer base from group SI-centric to government and global big tech companies based on AI data centers and solutions. While a valuation re-rating is expected as diverse mid- to long-term growth engines have been secured compared to the past, investment with a long-term perspective is required as time is needed for current projects to translate into earnings.

IT services: Quarterly sales



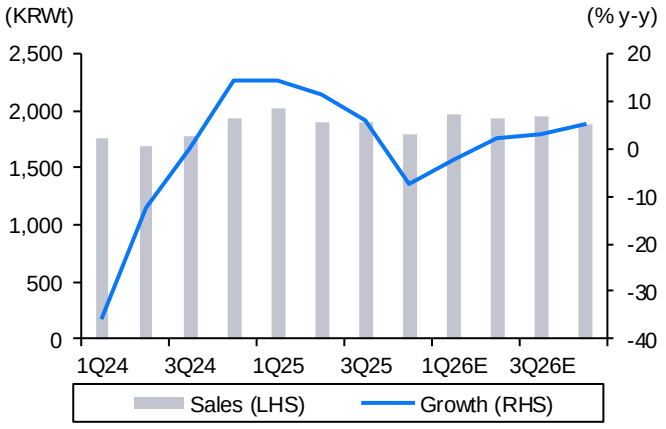
Source: Company data, Samsung Securities estimates

IT services: Quarterly operating profit



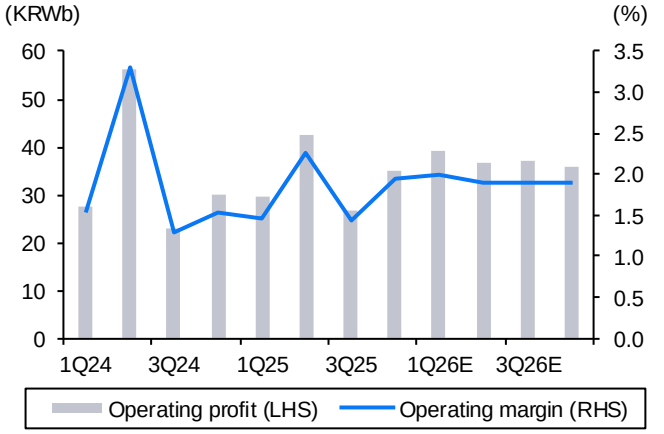
Source: Company data, Samsung Securities estimates

Logistics: Quarterly sales



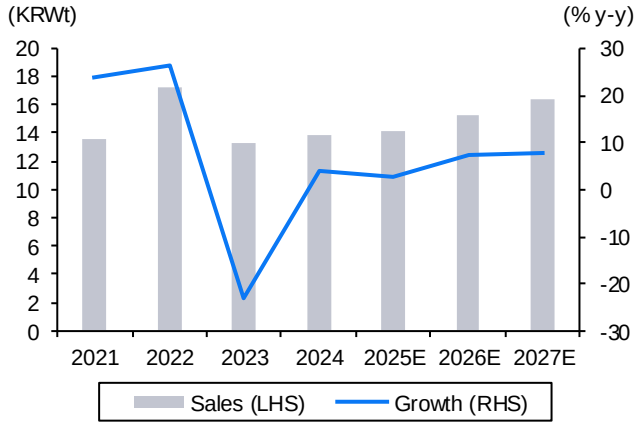
Source: Company data, Samsung Securities estimates

Logistics: Quarterly operating profit



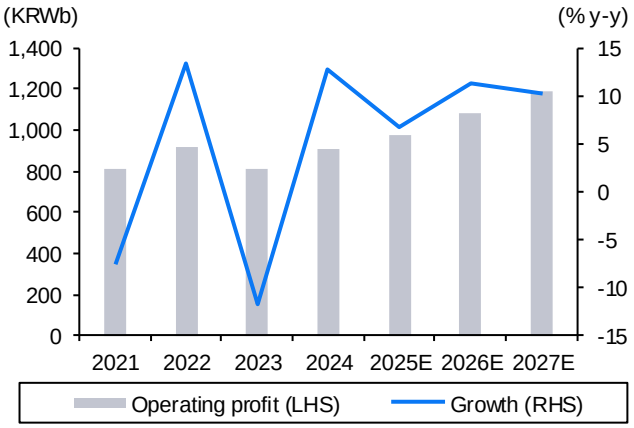
Source: Company data, Samsung Securities estimates

Annual sales



Source: Company data, Samsung Securities estimates

Annual operating profit



Source: Company data, Samsung Securities estimates

Quarterly results and forecasts

(KRWb)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E
Sales	**3,247**	**3,369**	**3,570**	**3,642**	**3,490**	**3,512**	**3,391**	**3,780**	**3,656**	**3,810**	**3,629**	**4,124**
IT service	1,554	1,586	1,630	1,632	1,600	1,678	1,596	1,821	1,728	1,860	1,744	2,033
Logistics	1,694	1,783	1,940	2,010	1,889	1,834	1,796	1,958	1,927	1,950	1,885	2,091
Cost of goods sold	**2,757**	**2,869**	**3,054**	**3,136**	**2,944**	**2,989**	**2,894**	**3,277**	**3,126**	**3,269**	**3,085**	**3,563**
Operating expenses	**264**	**279**	**263**	**295**	**277**	**293**	**265**	**262**	**264**	**268**	**270**	**292**
Labor & welfare	170	169	166	180	182	183	174	190	192	194	196	214
R&D	21	23	23	22	21	23	22	24	24	25	25	27
D&A	19	18	17	17	17	17	17	18	18	18	18	18
Others	53	68	58	75	58	69	51	30	30	32	31	33
Operating profit	**226**	**221**	**253**	**212**	**269**	**230**	**232**	**241**	**266**	**273**	**274**	**269**
Pre-tax profit	302	264	255	281	302	237	278	282	302	310	320	315
Net profit	217	191	186	196	218	176	201	208	223	229	237	233
Net profit (controlling interests)	211	177	180	190	211	171	195	202	217	223	230	226
Adjusted EPS (KRW)	2,390	2,187	2,568	2,156	2,749	2,465	2,429	2,594	2,843	2,925	2,964	2,942
Margin (%)												
Operating margin	7.0	6.6	7.1	5.8	7.7	6.6	6.8	6.4	7.3	7.2	7.5	6.5
Pre-tax margin	9.3	7.8	7.1	7.7	8.6	6.7	8.2	7.5	8.3	8.1	8.8	7.6
Net profit margin	6.7	5.7	5.2	5.4	6.2	5.0	5.9	5.5	6.1	6.0	6.5	5.7
Net profit margin (controlling)	6.5	5.2	5.0	5.2	6.1	4.9	5.8	5.4	5.9	5.8	6.3	5.5

Source: Company data, Samsung Securities estimates

Full-year forecasts

(KRWb)	2023	2024	2025E	2026E	2027E
Sales	**13,277**	**13,828**	**14,173**	**15,219**	**16,366**
IT service	6,106	6,402	6,696	7,365	8,114
Logistics	7,171	7,427	7,477	7,854	8,253
Cost of goods sold	**11,481**	**11,816**	**12,104**	**13,043**	**13,956**
Operating expenses	**988**	**1,101**	**1,097**	**1,095**	**1,219**
Labor & welfare	610	685	729	796	895
R&D	80	89	90	101	114
D&A	85	72	70	72	75
Others	213	255	208	126	135
Operating profit	**808**	**911**	**972**	**1,081**	**1,191**
Pre-tax profit	986	1,103	1,098	1,247	1,400
Net profit	701	790	803	922	1,036
Net profit (controlling interests)	693	757	780	895	1,006
Adjusted EPS (KRW)	8,676	9,300	10,237	11,675	13,080
Margin (%)					
Operating margin	6.1	6.6	6.9	7.1	7.3
Pre-tax margin	7.4	8.0	7.7	8.2	8.6
Net profit margin	5.3	5.7	5.7	6.1	6.3
Net profit margin (controlling)	5.2	5.5	5.5	5.9	6.1

Source: Company data, Samsung Securities estimates

Income statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Sales	**13,277**	**13,828**	**14,173**	**15,219**	**16,366**
Cost of goods sold	11,481	11,816	12,104	13,043	13,956
Gross profit	**1,796**	**2,012**	**2,069**	**2,176**	**2,410**
Gross margin (%)	13.5	14.6	14.6	14.3	14.7
SG&A expenses	988	1,101	1,097	1,095	1,219
Operating profit	**808**	**911**	**972**	**1,081**	**1,191**
Operating margin (%)	6.1	6.6	6.9	7.1	7.3
Non-operating gains (losses)	**177**	**192**	**126**	**165**	**209**
Financial profit	287	329	300	328	369
Financial costs	139	155	177	164	161
Equity-method gains (losses)	6	3	6	6	6
Other	23	15	-3	-5	-5
Pre-tax profit	**986**	**1,103**	**1,098**	**1,247**	**1,400**
Taxes	284	313	295	324	364
Effective tax rate (%)	28.8	28.4	26.9	26.0	26.0
Profit from continuing operations	701	790	803	922	1,036
Profit from discontinued operations	0	0	0	0	0
Net profit	**701**	**790**	**803**	**922**	**1,036**
Net margin (%)	5.3	5.7	5.7	6.1	6.3
Net profit (controlling interests)	693	757	780	895	1,006
Net profit (non-controlling interests)	8	33	24	27	31
EBITDA	1,421	1,518	1,593	1,702	1,813
EBITDA margin (%)	10.7	11.0	11.2	11.2	11.1
EPS (parent-based) (KRW)	8,962	9,783	10,074	11,570	12,997
EPS (consolidated) (KRW)	9,064	10,203	10,380	11,922	13,391
Adjusted EPS (KRW)*	8,675	9,302	10,237	11,675	13,080

Balance sheet

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Current assets	**8,160**	**9,004**	**9,918**	**11,472**	**13,096**
Cash & equivalents	1,788	1,669	1,988	2,819	3,854
Accounts receivable	1,482	1,720	1,815	1,980	2,115
Inventories	24	19	18	20	21
Other current assets	4,867	5,596	6,097	6,653	7,106
Fixed assets	**4,161**	**4,235**	**3,811**	**3,200**	**2,588**
Investment assets	145	156	159	169	177
Tangible assets	1,654	1,774	1,594	1,000	406
Intangible assets	819	814	814	787	760
Other long-term assets	1,543	1,490	1,245	1,245	1,245
Total assets	**12,321**	**13,238**	**13,730**	**14,672**	**15,683**
Current liabilities	**2,392**	**2,495**	**2,606**	**2,819**	**2,993**
Accounts payable	693	707	682	744	795
Short-term debt	0	0	0	0	0
Other current liabilities	1,699	1,788	1,924	2,075	2,199
Long-term liabilities	**954**	**1,037**	**929**	**960**	**986**
Bonds & long-term debt	0	0	0	0	0
Other long-term liabilities	954	1,037	929	960	986
Total liabilities	**3,345**	**3,533**	**3,535**	**3,780**	**3,979**
Owners of parent equity	**8,658**	**9,333**	**9,843**	**10,514**	**11,295**
Capital stock	39	39	39	39	39
Capital surplus	1,297	1,297	1,297	1,297	1,297
Retained earnings	7,447	7,995	8,550	9,221	10,003
Other	-125	2	-44	-44	-44
Non-controlling interests' equity	**318**	**372**	**352**	**379**	**409**
Total equity	**8,976**	**9,705**	**10,194**	**10,893**	**11,704**
Net debt	-4,623	-5,040	-5,632	-6,872	-8,241

Cash flow statement

Year-end Dec 31 (KRWb)	2023	2024	2025E	2026E	2027E
Cash flow from operations	**1,461**	**1,238**	**1,196**	**1,473**	**1,598**
Net profit	701	790	803	922	1,036
Non-cash profit and expenses	808	891	875	772	770
Depreciation	564	553	591	594	594
Amortization	49	54	30	27	27
Other	196	284	253	151	149
Changes in A/L from operating activities	-106	-252	-300	-69	-56
Cash flow from investments	**-622**	**-1,069**	**-413**	**-413**	**-335**
Change in tangible assets	-445	-473	-207	0	0
Change in financial assets	-66	-652	-140	-410	-334
Other	-111	56	-66	-3	-1
Cash flow from financing	**-463**	**-423**	**-443**	**-224**	**-224**
Change in debt	-1	116	-131	0	0
Change in equity	0	0	0	0	0
Dividends	-251	-216	-233	-224	-224
Other	-211	-323	-78	0	0
Change in cash	396	-119	320	831	1,035
Cash at beginning of year	1,392	1,788	1,669	1,988	2,819
Cash at end of year	1,788	1,669	1,988	2,819	3,854
Gross cash flow	**1,510**	**1,680**	**1,678**	**1,695**	**1,806**
Free cash flow	**1,010**	**763**	**988**	**1,473**	**1,598**

Financial ratios

Year-end Dec 31	2023	2024	2025E	2026E	2027E
Growth (%)					
Sales	-23.0	4.2	2.5	7.4	7.5
Operating profit	-11.8	12.7	6.6	11.3	10.2
Net profit	-37.9	12.6	1.7	14.9	12.3
Adjusted EPS**	-30.7	7.2	10.0	14.0	12.0
Per-share data (KRW)					
EPS (parent-based)	8,962	9,783	10,074	11,570	12,997
EPS (consolidated)	9,064	10,203	10,380	11,922	13,391
Adjusted EPS**	8,675	9,302	10,237	11,675	13,080
BVPS	111,933	120,661	127,248	135,923	146,024
DPS (common)	2,700	2,900	2,900	2,900	2,900
Valuations (x)					
P/E***	19.6	13.7	17.0	14.9	13.3
P/B***	1.5	1.1	1.4	1.3	1.2
EV/EBITDA	6.2	3.4	5.1	4.1	3.1
Ratios (%)					
ROE	8.2	8.4	8.1	8.8	9.2
ROA	5.8	6.2	6.0	6.5	6.8
ROIC	13.0	14.3	15.2	18.3	22.9
Payout ratio	30.1	29.6	28.8	25.1	22.3
Dividend yield (common)	1.6	2.3	1.7	1.7	1.7
Net debt to equity	-51.5	-51.9	-55.2	-63.1	-70.4
Interest coverage (x)	21.2	18.2	19.0	21.0	23.1

Note: *Excluding one-off items
**Fully diluted, excluding one-off items
***From companies subject to equity-method valuation

Source: Company data, Samsung Securities estimates

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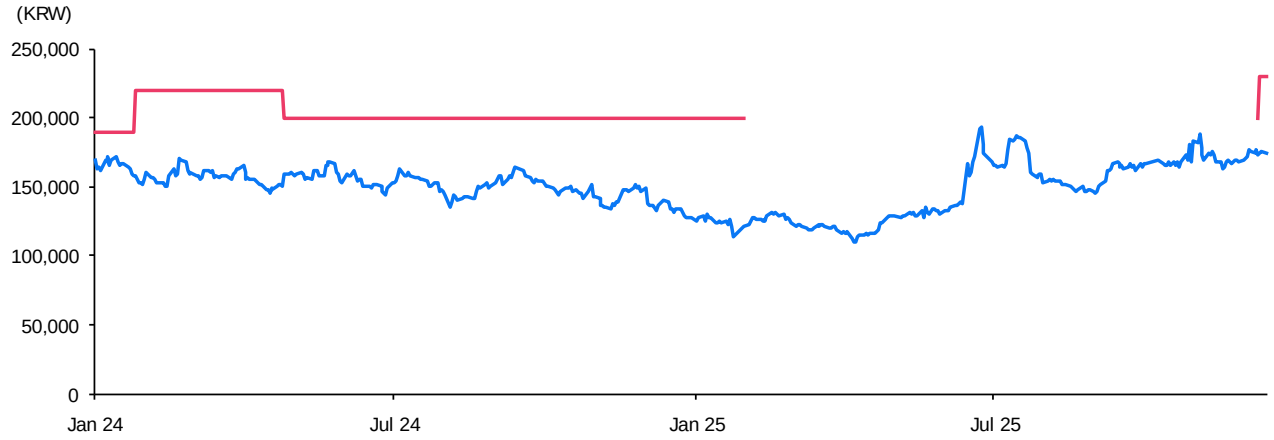
Target price changes in past two years



Rating changes over past two years (adjusted share prices)

Date	2023/11/29	2024/1/26	4/26	2025/12/11
Recommendation	BUY	BUY	BUY	BUY
Target price (KRW)	190000	220000	200000	230000
Gap* (average)	-12.10	-28.76	-26.45	
(max or min)**	-9.47	-22.68	-16.00	

Note: * [(average, maximum, or minimum share price over duration of target price minus target price) / target price] x 100%
** Maximum/minimum share price if new target is higher/lower than market close on the business day prior to target price change

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Industry

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Samsung Securities

SAMSUNG SECURITIES

Samsung Electronics Bldg., 11, 74-gil,
Seochodae-ro, Seocho-gu, Seoul, Korea 06620
Tel: 02 2020 8000 / www.samsungpop.com

Family Center: 1588 2323

Voice Of Customer: 080 911 0900

**For more information,
please call our sales representatives:**

LONDON

Samsung Securities Europe Limited
1st Floor, 30 Gresham Street, London EC2V 7PG UK
Tel. 44-207-776-4311
Fax. 44-203-837-9219

NEW YORK

Samsung Securities America Limited
1330 Avenue of the Americas. 10th Floor. New York,
NY 10019
Tel: 1-212-972-2454
Fax: 1-212-972-2704

HONG KONG

Samsung Securities (Asia) Limited
Suite 4511, Two International Finance Center,
8 Finance Street, Central, Hong Kong
Tel: 852-3411-3608
Fax: 852-2114-0290

BEIJING

Samsung Securities Beijing Representative Office
Rm. 910, The Exchange Building No 118 JianGuo Lu, Chao Yang District, Beijing, China
Tel: 86-10-6522-1855 (extension 7891)
Fax: 86-10-6522-1855 (extension 7889)

TOKYO

Samsung Securities Tokyo Representative Office
#106-8532 19F, Roppongi T-Cube 3-1-1,
Roppongi Minato-ku Tokyo, Japan
Tel: 81-3-6333-2952
Fax: 81-3-6333-2953

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