

Letter to Shareholders

To Our Valued Shareholders,

I wish you and your family good luck and happiness in the year of 2017.

In 2016, we faced a volatile macroeconomic and political environment. Global economic growth remained stagnant and South Korea's economy was weighed down by a variety of uncertainties.

Despite the challenging business environment, Samsung Electronics was able to improve our earnings due to the ceaseless efforts and devotion of our employees. We have also made significant enhancements to our shareholder return program, extending our commitment to long-term, sustainable value creation for shareholders.

Now, we would like to share with you three key achievements we made throughout the year.

First, we improved earnings compared to the previous year, thanks to the record high results from component products such as semiconductors.

In 2016, the total revenue was approximately KRW 202 trillion, a slight increase from the previous year. The operating profit and net profit were KRW 29 trillion and KRW 23 trillion, an increase of 11% and 19%, respectively.

In the memory business, market conditions improved significantly as the chip market experienced a supply shortage due to delays in the tech migration of suppliers, under solid demand from major applications such as mobile/server. We continued to improve earnings by reinforcing cost competitiveness through the expansion of cutting-edge processes for products such as 20nm DRAM and the 3rd generation V-NAND, and by increasing sales of high value-added products such as high-density DDR4/SSDs.

In the system LSI business, we improved earnings compared to the previous year by reinforcing competitiveness of the mobile AP and foundry businesses based on the advanced 14nm process. Also, our efforts to expand sales of high value-added products such as image sensors and DDIs contributed to this result.

In our display business, we saw earnings improve from the second half of the year as we expanded the sales of high value-added products improved LCD market conditions. We also laid the groundwork for stable growth by expanding the OLED customer base, improving profitability, and making pre-emptive investment to brace for increasing demand.

In the IM business, we maintained solid earnings by expanding sales of our flagship product, the Galaxy S7, as well as by enhancing the competitiveness of our mid-range products including the Galaxy A and J series, even though we had Note7 issue.

In the TV business, we reinforced competitiveness in the premium market by launching upgraded SUHD TVs with the Quantum Dot technology. This allowed us to achieve first place in market share for the 11th consecutive year. Also, in the digital appliances business, we further enhanced competitiveness in the premium market by introducing innovative products such as Family Hub Refrigerators with enhanced smart features and Active/Add Wash washing machines.

Second, we focused on acquiring new growth engines by investing in businesses with high growth potential. We also concentrated on our core competencies and strengthened competitiveness.

Information technology is a highly complex industry. While it is experiencing an overall slump, the technologies that drive the industry are evolving rapidly. The Internet of Things (IoT) and artificial intelligence (AI), as well as the rise of smart, connected automobiles are reshaping the entire industry.

In light of the evolving business landscape, Samsung Electronics has continued to work to cement our technology leadership, investing KRW 14 trillion in R&D in 2016 alone.

As a result, we registered 5,518 U.S. patents (No.2 in the world) in 2016, demonstrating our strong technology base for future growth. Samsung Electronics received 35 Innovation Awards at 'CES 2017', including the Best Innovation Award in the TV category for the sixth year in a row, and five 'IDEA 2016' (design) awards. These achievements also boosted our brand value. For the third consecutive year Samsung Electronics is ranked as the world's seventh best brand in Interbrand's global ranking, with \$51.8 billion in brand value in 2016 - the first time it surpassed the \$50 billion mark.

In order to secure a leading position in the emerging areas including the IoT and AI, we are constantly developing new technologies and making strategic investments. This includes the acquisition of HARMAN International, which will lay the groundwork for us to lead the cutting-edge automotive components sector and build the future of connected cars.

The acquisition of Viv Labs, which has an AI platform for voice recognition, prepares us to create an AI-based open ecosystem integrating all devices and services. Acquiring Joyent, a leading cloud-computing company, helps us secure capabilities to enhance smartphone user experience and respond to the increasing demand for cloud services.

Third, we were committed to delivering value to our shareholders and made proactive enhancements to our shareholder return programs.

As part of our strong shareholder return policy announced in 2015, we have completed the KRW 11.4 trillion special share repurchase and cancellation program.

In 2016, we announced significant enhancements to the shareholder return policy that will deliver further shareholder value: first, we set the percentage of free cash flow allocated to shareholder returns for 2016 and 2017 to 50%. We also increased total dividends in 2016 to KRW 4 trillion.

The remaining 50% portion of 2016 free cash flow after the dividend payouts will be used for share repurchase program. Including interim dividend, the annual dividend per share for 2016 rose by 36% to reach KRW 28,500 per common stock and KRW 28,550 per preferred stock.

We will initiate quarterly dividend payments starting from the first quarter of 2017. This will provide more evenly distributed dividends to our shareholders. Furthermore, we will seek to further enhance our long-term shareholder return policy beyond 2017.

Our ongoing efforts to deliver enhanced shareholder value, together with increased earnings, boosted the company's stock price by 43% last year, to KRW 1,802,000 at the end of 2016. We are pleased that the enhanced corporate value of our company has significantly contributed to shareholder value.

In the coming year,

the uncertainties of current environment weighing on the business outlook are expected to persist. Competition among companies in our mainstay businesses such as smartphone, memory and TV will continue to intensify, and our competitors are aggressively investing and advancing their technologies to increase their market share.

Samsung Electronics will continue our efforts to improve our performance and to enhance our capabilities to generate sustainable growth in the mid- to long-term.

We will lay the strong base to seize future opportunities.

We will constantly innovate technologies and optimize our business portfolios to cement our leadership in the market. At the same time, we will become a first mover in satisfying the needs of consumers through in-depth reviews of consumer behavior, and create new opportunities by discovering undetected needs of consumers.

We will improve risk management.

We will build a robust risk management system to cope with the complex challenges we are faced with. We have undertaken a thorough review of the existing systems and business practices. We are committed to ensure quality and safety by improving every step of our process and redesigning our quality assurance program.

We will be committed to shareholder-friendly management.

Although difficult business conditions and macroeconomic uncertainties are expected to continue this year, we will strive to deliver strong business results, based on the firm belief that solid earnings is one of the major contributors to shareholder value. Furthermore, we will implement our shareholder return programs as we announced last year. Lastly, we will continue to engage and strengthen communication with our shareholders through meetings and IR events to enhance your understanding of the company's values and vision.

Although we experienced a period of low growth following years of rapid growth, Samsung Electronics improved earnings last year, thanks to the hard work and determination of all our employees.

We expect that 2017 will also present difficulties, but we are committed to overcome obstacles. Based on experiences of overcoming several crises and achieving successful growth, we will strive to cope with the rapidly changing environment through a sense of challenge and constant innovation. Through these efforts, we believe that this year will serve as a platform for stable and long-term growth.

Once again, I would like to wish all of you and your family good health and happiness in 2017.

Thank you.

Respectfully yours,



Oh-Hyun Kwon
Vice Chairman & CEO
Samsung Electronics Co., Ltd

