

# SAMSUNG

## 2018 Annual General Meeting of Shareholders Reference Material

### SAMSUNG ELECTRONICS Co., Ltd.

#### **Note about forward-looking statements**

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Certain statements in this reference statement, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in our financial reports available on our website at <http://www.samsung.com/global/ir>

# Letter to Shareholders

## To Our Valued Shareholders,

Samsung Electronics had an outstanding year in 2017 as we generated record-high results amid uncertainties caused by a rise in protectionism and geopolitical risks. Alongside our strong results, we worked hard to keep enhancing shareholder value through our proactive shareholder returns. We thank you for your trust and investment, and I would now like to highlight some of our achievements in 2017.

## Record-high earnings

In the Memory Business, we enjoyed favorable conditions throughout the year as demand for servers and other major applications stayed solid while supply was kept in check due to increasing difficulties in migrating technology.

We reinforced our cost competitiveness by expanding cutting-edge processes to produce the industry's first 10nm-class DRAM and our fourth-generation V-NAND and improved profitability by increasing sales of high value-added products such as high-density/high-performance server DRAM and SSDs.

We strengthened our competitiveness through our 10nm process in the Foundry Business and increased shipments of high value-added products, such as mobile APs and image sensors/DDIs, to improve earnings at the System LSI Business.

For displays, earnings in the LCD business grew year-over-year as we raised the high-end-product portion of sales amid improved supply-demand conditions. In the OLED business, we continued to strengthen our competitiveness, with OLED panels having become the mainstream display in high-end smartphones, reinforcing our base for growth.

In the Mobile Communications Business, we launched our flagship Galaxy S8 and Note 8 offering differentiated technology such as Infinity Display and added more flagship features to the A and J series, fortifying our status in the high-end segment and enabling us to perform solidly under heightened competition. Moreover, we strengthened the competitiveness of Bixby and Samsung Pay and expanded their use into more regions.

In the TV business, we offered our customers a new level of quality with our Quantum dot-based QLED technology and a way to enrich their surroundings with innovative design using products such as The Frame TV, adding to our strength in premium segment and keeping us atop the global TV market for a twelfth straight year. In the Digital Appliances Business, we continued to pioneer premium products with enhanced smart features, including Family Hub Refrigerators and Add Wash/Flex Wash washing machines.

We also completed the acquisition of Harman International Industries, a premier, US-based automotive electronics firm. Our expertise in areas such as 5G, OLED, AI, and voice-recognition combined with Harman's cutting-edge technologies will drive innovation and expand the boundaries of user experience.

Altogether, we increased full-year revenue by 19% to KRW 240 trillion and operating profit by 83% to KRW 54 trillion, with the latter exceeding KRW 50 trillion for the first time.

### **Corporate governance restructuring**

Demand for better corporate governance and greater management transparency is rising as the adoption of a stewardship code becomes more prevalent. In April of last year, we created the Governance Committee, comprised entirely of Independent Directors, to address all matters that affect shareholder value and expand communication with our investors. The Committee is also tasked with carrying out the responsibilities previously handled by the CSR Committee.

Also, we decided to separate the roles of Chief Executive Officer and Chairman of the Board. This will enable more responsible management by allowing our CEOs to focus fully on their businesses. The Board will also be able to evaluate management more objectively, thus increasing its independence as well as shareholder trust.

In February of last year, we reinforced procedures related to conducting preliminary reviews on and executing public donations. First, we created a Review Council to assess and approve any donation plan that exceeds KRW 10 million before passing it to the Audit Committee. Additionally, any single donation that exceeds KRW 1 billion must be approved by the Board and disclosed publicly, the threshold down significantly from the previous level.

### **Increased shareholder value**

In 2017, we invested approximately KRW 9.2 trillion over four phases to repurchase and cancel shares. In addition, we retired 50% of our treasury stock. Compared to the previous year, this reduced the number of common and preferred shares outstanding at end-year by 9% and 12%, respectively.

We initiated quarterly dividend payments from 1Q17 to provide a more even distribution. In addition, we decided to distribute the entire 50% of free cash flow allocated to shareholder returns for 2017 as dividends. Approval of the year-end dividend at the upcoming annual general meeting will bring our 2017 payout to around KRW 5.8 trillion, an increase of 46% year-over-year. This would result in an annual DPS of KRW 42,500 for common stock and KRW 42,550 for preferred stock.

In October, we continued our proactive approach and announced a shareholder return policy for 2018-2020 that focuses on dividends, reflecting our shareholders' desire for greater predictability of returns. As a result, our dividends will be significantly higher than they were in the previous three-year period.

As announced in our fourth quarter earnings call, we will conduct a 50-for-1 stock split this year as the price of our shares has risen considerably backed by our strong results and improved shareholder returns. We aim to enhance accessibility and liquidity of our stock, thus enabling more investors to benefit from the substantial increase in our dividends.

We are pleased that our efforts to improve shareholder returns and corporate governance, combined with our strong results, contributed to an increase in our corporate value and led our stock to gain 41% in 2017.

### **Looking ahead**

In a broad sense, we expect uncertainties such as trade protectionism and geopolitical risks to persist throughout the year, and the paradigm in the IT industry to keep shifting, fueled by further advancements in areas such as AI, IoT, autonomous vehicles, and big data.

We will not dwell on our success, but rather use such an environment to seize new opportunities and are committed to delivering another highly successful year. At the same time, we will prepare for mid- to long-term growth, and faithfully execute our shareholder return policy. We are confident that our efforts will contribute to elevating long-term shareholder value.

We will continue to enhance corporate governance by improving management transparency and increasing the Board's independence and diversity. We will also strengthen investor communication by sharing our vision and values through various IR events.

In closing, I am stepping down as CEO and Chairman of the Board, as you may already be aware. I believe it is time for younger leadership to take the helm to better respond to a rapidly changing IT industry. I sincerely hope that you will extend your trust and support to our new management team as they build on our current businesses and develop new ones.

Thank you.

Respectfully yours,



Oh-hyun Kwon, PhD  
Chairman  
Samsung Electronics Co., Ltd



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# Notice of Annual Meeting of Shareholders

**Date/Time:** March 23, 2018 at 09:00 Korea Standard Time (UTC+9)

**Place:** Multifunctional Hall, 5F Samsung Electronics Bldg, (Seocho-dong) 11, 74-gil Seochodaero, Seocho-gu, Seoul, Korea

**Record date:** December 31, 2017 (only common shareholders of record at the close of business on the record date are entitled to vote at the Annual General Meeting of Shareholders)

## Agenda 1. Approval of Audited Financial Statements and Annual Dividends (FY2017)

### □ Financial Highlights

(Unit: KRW trillion)

	FY2017	FY2016	Change
Revenue	239.6	201.9	18.7%
Operating profit	53.6	29.2	83.5%
Net profit	42.2	22.7	85.6%
Capex	43.4	25.5	70.3%
R&D	16.4	14.1	15.9%

- Audited financial statements with the independent auditor's opinion are not available as of today but will be sent via a separate e-mail on February 28th.

### □ Annual Dividends

(Unit: KRW)

	FY2017	FY2016	Change
Dividends per common share	42,500	28,500	49.1%

- FY2017 (KRW 42,500) includes quarterly dividends for 1Q–3Q of KRW 7,000 per share which were paid in May, August and November, respectively..
- Dividends per preferred share : KRW 42,550

## Agenda 2. Election of Directors

The Company seeks to make the following changes to the Board's composition and operational system in order to generate solid long-term results and further contribute to elevating shareholder value. We decided to separate the roles of CEO and Chairman of the Board and will thus appoint an additional Executive Director who will sit on the chair. We will also appoint an additional Independent Director to guarantee the Board's independence. Accordingly, the number of Board members will increase from nine to eleven.

### Agenda 2.1 Appointment of Independent Directors (3)

- We recommend three candidates for Independent Director due to the expiry of the terms of two Independent Directors and the creation of a new position. The Independent Director Recommendation Committee assessed candidates with a focus on increasing Board diversities and strengthening technological expertise.
- We recommend Dr. Jeong Hun Kim (global C-suite experience), Dr. Sun Uk Kim (law expert/gender diversity) and Dr. Byung Gook Park (semiconductor specialist).

### Agenda 2.2 Appointment of Executive Directors (4)

- The Board recommends the CEOs of our mainstay businesses, Ki Nam Kim, Hyun Suk Kim, and Dong Jin Koh, as our Executive Director candidates to fill the positions of the former CEOs. We expect the candidates, who were appointed as CEOs last October, to lead the Company's growth and expansion.
- We also recommend our former CFO Sang Hoon Lee to take the position of Chairman.

### Agenda 2.3 Appointment of Audit Committee Member (1)

- We recommend Sun Uk Kim as our candidate to fill the vacancy on the Audit Committee created by the expiry of the term of an Independent Director. We believe her experience and knowledge are well suited to fulfill the required duties.

### Agenda 3. Approval of Director Remuneration Limit (FY2018)

(Unit: KRW billion)

	FY2018	FY2017	
	Proposed	Approved	Actual
General compensation	37.5	30.0	28.5
Long-term Incentive (LTI)	9.0	25.0	16.5
Total	46.5	55.0	45.0

#### - General compensation

- The Board recommends increasing the remuneration limit by 25%, considering the number of Executive Directors has risen from four in 2017 to five in 2018.

#### - LTI

(Unit: KRW billion)

	Current term		Previous term
Evaluation period	2014–2016		2011–2013
Payment period	2017–2019		2014–2016
	Limit	Actual	Limit
Payment year 1 (2017)	25	16.5	18 (2014)
Payment year 2 (2018)	9	-	9 (2015)
Payment year 3 (2019)	9	-	9 (2016)

- The Board recommends setting the LTI limit at KRW 9 billion for FY2018, year 2 of the current term (25%).
- In February 2017, the Board recommended setting the LTI limit for the current term (to be paid over 2017–2019) at KRW 50 billion. As the actual amount to be paid had not been determined at the time, the Board set the amount reflecting the necessary increase from the previous term's LTI limit (KRW 36 billion). Based on the payment schedule for the term, paying respective portions of 50% in 2017, 25% in 2018, and 25% in 2019, an LTI limit of KRW 25 billion was approved for 2017.
- The actual payment in 2017 was KRW 16.5 billion, substantially lower than the approved amount. Accordingly, the Board recommends adjusting the LTI limit to KRW 9 billion for 2018, year two (25%) of the current term.

### Agenda 4. Approval of Stock Split and related amendments to the Articles of Incorporation

The Board decided to conduct a 50:1 stock split, aiming to enhance the accessibility and liquidity of our shares. Accordingly, we are seeking your approval of the split and to amend related Articles of Incorporation, including Article 5 to increase the total number of shares to be issued.

# 1 Agendas

## Agenda 1. Approval of Audited Financial Statements and Annual Dividends (FY2017)

### I. Audited Financial Statements

#### Overview

The Board of Directors is seeking your approval of the following financial statements for FY2017 beginning on January 1, 2017 and ending on December 31, 2017.

- Consolidated Statements of Financial Position
- Consolidated Statements of Profit or Loss
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Changes in Equity
- Consolidated Statements of Cash Flows
- Separate Statements of Appropriation of Retained Earnings

Audited financial statements with the independent auditor's opinion are not available as of today but will be sent via a separate e-mail on February 28th.

#### □ Financial Performance (K-IFRS, consolidated)

(Unit: KRW trillion)

	FY2017	FY2016	Change
Revenue	239.6	201.9	18.7%
Operating profit	53.6	29.2	83.5%
Net profit	42.2	22.7	85.6%
EPS (KRW)	299,868	157,967	89.8%

Assets	301.8	262.2	15.1%
Liabilities	87.3	69.2	26.1%
Equity	214.5	193.0	11.2%
Liabilities/equity	40.7%	35.9%	4.8%p

ROE	20.7%	12.2%	8.5%p
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\* See Section 5. (page 36 ~) for detailed financial statement.



## Business performance

### □ Summary of key financial metrics, by business division

(Unit: KRW trillion)

Division	Category	FY2017	FY2016	FY2015
<b>Semiconductor</b>	Revenue	<b>74.3</b>	51.2	47.6
	Operating profit	<b>35.2</b>	13.6	12.8
	Margin	<b>47.4%</b>	26.6%	26.9%
<b>Display Panel</b>	Revenue	<b>34.5</b>	26.9	27.5
	Operating profit	<b>5.4</b>	2.2	2.3
	Margin	<b>15.7%</b>	8.3%	8.4%
<b>Consumer Electronics</b>	Revenue	<b>45.1</b>	45.1	46.9
	Operating profit	<b>1.7</b>	2.7	1.3
	Margin	<b>3.7%</b>	6.0%	2.7%
<b>IT &amp; Mobile Communications</b>	Revenue	<b>106.7</b>	100.3	103.6
	Operating profit	<b>11.8</b>	10.8	10.1
	Margin	<b>11.1%</b>	10.8%	9.8%
<b>Overall</b>	Revenue	<b>239.6</b>	201.9	200.7
	Operating profit	<b>53.6</b>	29.2	26.4
	Margin	<b>22.4%</b>	14.5%	13.2%

In 2017, we achieved record-high earnings mainly on contributions from the component business. Demand for high-value-added server memory stayed strong, and our preemptive and strategic investments to prepare for new technology and market growth started to contribute to results. On a full-year basis, total revenue increased 19% to around KRW 240 trillion and operating profit rose 83% to approximately KRW 54 trillion, the latter exceeding KRW 50 trillion for the first time.

For the component business, the Memory Business enhanced its technology leadership and cost competitiveness by expanding shipments of 10nm-class DRAM and 64-layer V-NAND. At the same time, it increased sales of high value-added products such as high-density DRAM and SSD for servers. The System LSI Business continued to develop high value-added products such as 3-stack image sensors and mobile processors. The Foundry Business continued its technological leadership by ramping up production that uses the 10nm process. For the display business, the LCD business generated higher earnings year-over-year by raising its high-end portion of products amid improving supply-demand conditions. In the OLED business, we continued to strengthen our competitiveness, with OLED panels having become the mainstream display in high-end smartphones, reinforcing our base for growth.

The IT & Mobile Communications Division continued to enjoy strong sales of flagship models with the global release of the Galaxy S8/S8+ and Note8 featuring differentiated technologies such as Infinity Display, Bixby, and a Dual OIS Camera. In the low-end to mid-range segment, we increased our total smartphone shipments by equipping the A and J series with more flagship features, including fast charging, a metal casing, and dust/water resistance. Through these efforts, the division improved its revenue and profit and strengthened its presence in smartphone market.

In the CE Division, the TV business added to its strength in the premium segment by offering new levels of picture quality based on Quantum dot QLED technology and an innovative way to enhance surroundings using products such as The Frame TV, helping achieve the top market share for a twelfth straight year. In the home appliances business, we continued to pioneer new products with enhanced smart features, including Family Hub Refrigerators and Add Wash/Flex Wash washing machines, solidifying our position in yet another premium market.

## Capital expenditures and other investments

### □ Capex, R&D, Advertising & Sales Promotion Investments

(Unit: KRW trillion)

Category	FY2017	FY2016	FY2015
<b>Capex</b> <i>(as percentage of revenue)</i>	<b>43.4</b> <b>(18.1%)</b>	25.5 <i>(12.6%)</i>	25.5 <i>(12.7%)</i>
<b>R&amp;D</b> <i>(as percentage of revenue)</i>	<b>16.4</b> <b>(6.8%)</b>	14.1 <i>(7.0%)</i>	13.7 <i>(6.8%)</i>
<b>Advertising &amp; Sales Promotion</b> <i>(as percentage of revenue)</i>	<b>12.6</b> <b>(5.3%)</b>	11.5 <i>(5.7%)</i>	11.0 <i>(5.5%)</i>
<b>Total</b> <i>(as percentage of revenue )</i>	<b>72.4</b> <b>(30.2%)</b>	51.1 <i>(25.3%)</i>	50.2 <i>(25.0%)</i>

In 2017, our capital expenditures totaled KRW 43.4 trillion, including KRW 27.3 trillion for Semiconductor and KRW 13.5 trillion for Display. Capex was up significantly year-over-year as we invested in the Pyeongtaek fab to expand capacity to address rising demand for V-NAND, facilitate migration of DRAM processes, and build new wafer capacity to mitigate the capacity loss resulting from the migration. We also increased our 10nm capacity to address demand for cutting-edge process technology for our foundry business, and solidified our basis for growth in the market for flexible OLED panels.

For R&D, we invested KRW 16.4 trillion (or 7% of total revenue), an increase of KRW 2.2 trillion from the previous year. Our global R&D is focused on creating a sustainable competitiveness for long-term growth through technology and innovation.

Advertising and Sales & Promotion expenses in 2017 came in at KRW 12.6 trillion. We have steadily increased the power of our brand through various high-profile marketing and advertising campaigns, and, according to Interbrand's 2017 global rankings, our brand is the world's sixth best with an estimated value of USD 52.6 billion.

## II. Shareholder return

### Shareholder return program for FY2015-2017

- In addition to our efforts to strengthen business competitiveness, the Company in 2015 announced a three-year shareholder return program for 2015-2017 under the principle of providing proactive shareholder returns in the mid to long term. In November 2016, we further enhanced our shareholder return program, demonstrating our commitment to increasing shareholder value.

#### □ Total shareholder return for FY2015-2017: KRW 33.5 trillion

- We returned 30% of FCF (free cash flow) in 2015 and 50% of FCF to shareholders in 2016 and 2017 in the form of dividends and share repurchases and cancellations. We also completed a special share repurchase program of KRW 11.4 trillion during FY2015-2016 period.

#### - Dividends

- A total of **KRW 12.9 trillion**  
 FY2017: **5.8 trillion (KRW 42,500 per share)**  
 FY2016: **4.0 trillion (KRW 28,500 per share)**  
 FY2015: **3.1 trillion (KRW 21,000 per share)**  
 ※ We initiated quarterly dividend payments in 2017

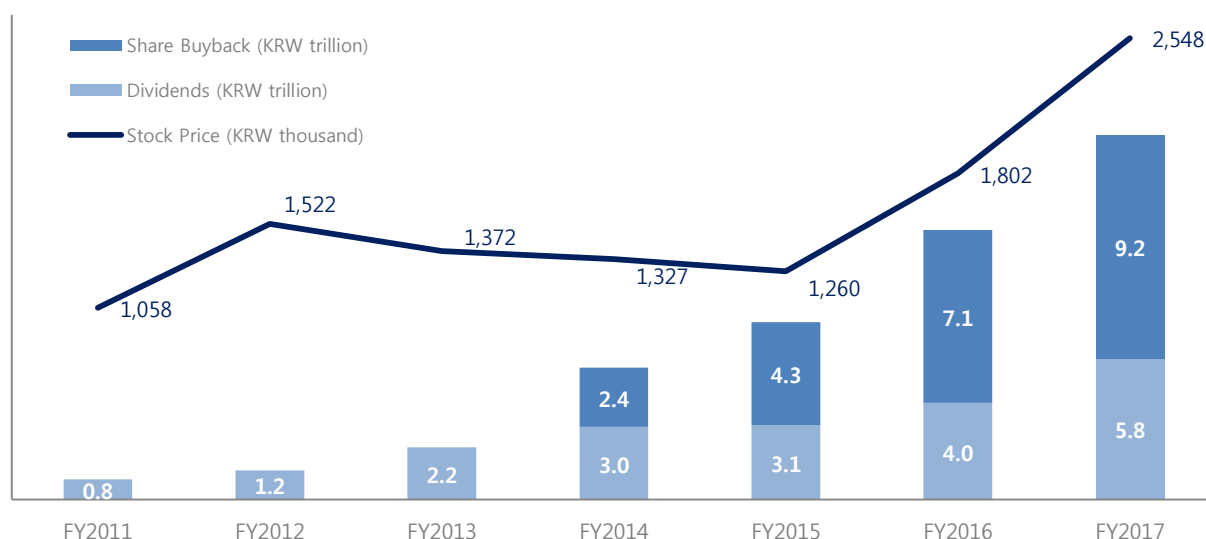
#### - Share Repurchase/Cancellation

- We have invested KRW 20.6 trillion—including the KRW 11.4 trillion in our special repurchase program in 2015-2016—to repurchase and cancel our shares
- Along with this, we cancelled 50% of the shares held in treasury in April 2017.

→ This reduced the number of shares outstanding by 12.8% for common shares and 20.9% for preferred shares.

#### □ Share Price

- The proactive share returns, and combined with improved earnings, has contributed to the significant increase in the price of our stock.



☞ Total shareholder returns (TSR) for FY2017 remained at a high level due to a rise in stock price, continuous growth in dividend payments, and our proactive share repurchase program

(Unit: KRW)

Category	FY2017	FY2016	FY2015
Year-end stock price (common shares)	<b>2,548,000</b>	1,802,000	1,260,000
Dividends per common share	<b>42,500</b>	28,500	21,000
Share repurchase ratio <sup>1</sup>	<b>3.3%</b>	3.4%	1.9%
TSR <sup>2</sup>	<b>47%</b>	49%	-2%

1) Share repurchase ratio = (repurchase amount)/(start-year market cap)

2) TSR = [{"(End-year stock price – start-year stock price) + dividends"} / (start-year stock price)] + Share repurchase ratio

## Shareholder return program for FY2018-2020

- In October 2017, we announced our shareholder return program for FY2018-2020 that aims to provide investors with greater predictability.
- The Company will pay out KRW 9.6 trillion in dividends in each year of the program.
- Future M&A investments will not be deducted from FCF. This will increase both total amount and predictability of shareholder returns.
- The Company will change the period of returning a minimum 50% of FCF from one year to three years to address possible fluctuations in annual shareholder return caused by fluctuations in annual FCF. After dividend payouts, any remaining portion of 50% of total FCF over the three years will be used either for additional cash dividends or share buybacks.

# Agenda 2. Election of Directors

## Overview

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The Board is elected by shareholders to oversee the financial soundness and long-term success of the Company's business. The Board serves as the Company's ultimate decision-making body except in matters reserved to or shared with our shareholders.

The Board currently consists of four Executive Directors and five Independent Directors. Executive Directors are the CEOs of our mainstay DS, IM and CE divisions, while Independent Directors consist of experts in areas such as IT, law, health and medicine, and public administration, offering them ability to supervise management with an objective and balanced point of view.

The Board will separate the roles of CEO and Chairman of the Board, enabling the board to be more independent. Accordingly, we seek to appoint one additional Executive Director who will become non-CEO chairperson, and one additional Independent Director to guarantee the Board's independence. As a result, the number of Board members will increase from nine to eleven.

The Company seeks to make the following changes to the Board.

- We recommend three candidates for Independent Director due to the expiry of the terms of two Independent Directors and the creation of a new position. With increasing importance being placed on the roles and responsibilities of independent directors, the Independent Director Recommendation Committee assessed candidates with a focus on increasing Board diversity (in terms of nationality, gender, etc.) and strengthening IT expertise. The candidates are leading figures in the fields of IT, electronics & engineering, and law. We expect them to contribute to effective decision-making by fully utilizing their extensive experience and expertise. We will add diversity with the election of a female director as well as a director with global C-suite experience, enabling the Board to have a more balanced point of view.
- For Executive Directors, we recommend the heads of our mainstay DS, IM, and CE businesses. The three candidates, who were appointed as CEOs last October, demonstrated their expertise and capabilities in assisting the former CEOs, playing a key role in the Company's growth.
- For the first time in our history, we will separate the roles of CEO and Chairman of the Board, and recommend former CFO Sang Hoon Lee as our new Chairman of the Board. With the Chairman representing shareholder interests, this structure will help management fully focus on their businesses and strengthen the Board's check on management.

Samsung Electronics will strive to enhance long-term shareholder value. To this end, we are changing the Board's composition and operational system, which will improve the expertise and independence of the Board and help promote responsible management. We ask for your support and interest in this move.

## Agenda 2.1 Appointment of Independent Directors

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### 2.1.1

#### Jeong Hun Kim, PhD

(newly nominated)



### 2.1.2

#### Sun Uk Kim, PhD

(newly nominated)



### 2.1.3

#### Byung Gook Park, PhD

(newly nominated)



We nominated three candidates through our Independent Director Recommendation Committee in meetings held on January 31 and February 21, 2018.

- Dr. Jeong Hun Kim is an IT expert with U.S citizenship. He immigrated to the United States with his family in 1975 at the age of 14. His early years in the US were difficult, but his ambition and work ethic helped him overcome all adversities and distinguish himself through his education. He founded and operated Yurie Systems, a successful venture firm that listed on the Nasdaq in 1997, and also served as president of Lucent Technology and Chief Strategy Officer of Lucent Bell Labs. Given his understanding of the IT industry and extensive global connections, we expect him to play a key role in developing new growth engines and advancing new businesses. Furthermore, his leadership experience in R&D labs and the boardrooms at global firms will provide the Board with insight from a global point of view.
- Dr. Sun Uk Kim is a leading authority in law in the nation. She is the former president of Ewha University and served as the Minister of Government Legislation, and is currently a professor at Ewha Law School. She has played and is playing leading roles in establishing policies and systems in diverse organizations—not only in the field of law, but also in government organizations and women’s institutes—to nurture female talent and provide them with fairer opportunities. As a law expert, we expect Sun-Uk Kim to strengthen the Company’s compliance management and contribute to establishing systems to nurture and better utilize female talent.
- Dr. Byung Gook Park is an expert in the field of semiconductors. He served as the president of Institute of Electronics Engineers of Korea and is currently a professor of Electrical Engineering at Seoul National University. He is member of the National Academy Engineering of Korea, an organization that acknowledges and honors engineers that have made outstanding achievements in research and technological development as well as contributed to national development. He also worked in R&D at world leading companies such as AT&T Bell Labs and Texas Instruments.

Technology migration in the semiconductor business—one of our mainstay businesses—is taking longer and becoming more difficult. We believe Byung-Gook Park’s knowledge and expertise will help us navigate the challenges of this environment and provide the Board with useful insight on the development of cutting-edge technology. Also, we expect that he will contribute to strengthening ‘open innovation’ by promoting cooperation between industry and academia, which is becoming increasingly important.

## Agenda 2.2 Appointment of Executive Directors

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2.2.1	2.2.2	2.2.3	2.2.4
<b>Sang Hoon Lee</b>	<b>Ki Nam Kim, PhD</b>	<b>Hyun Suk Kim</b>	<b>Dong Jin Koh</b>
<b>Recommended for Chair of Board</b>	<b>CEO of Device Solutions</b>	<b>CEO of Consumer Electronics</b>	<b>CEO of IT &amp; Mobile Communications</b>
<b>(newly nominated)</b>	<b>(newly nominated)</b>	<b>(newly nominated)</b>	<b>(newly nominated)</b>
			

- Aiming to improve the independence and efficiency of the Board, the Company decided to separate the roles of CEO and Chairman. Accordingly, the Board recommends former CFO Sang Hoon Lee as a candidate to become an Executive Director and Chairman of the Board. Serving as CFO from 2012 to 2018, he helped the Company generate solid business results and fortify our financial structure. He also contributed to significantly elevating shareholder value through a proactive shareholder return policy as well as improving corporate governance. He has experience in the boardroom, previously serving as a Director at Samsung Electronics and Harman. His expertise and extensive knowledge of the Company's businesses and finances will enable him to fulfill his role as Chairman amid a substantially changed composition of the Board.
- Meanwhile, Samsung Electronics announced the appointments of three new CEOs to take over the three key business divisions to better respond to a rapidly changing IT industry and establish sustainable growth. Accordingly, we recommend the new heads of the divisions, Ki Nam Kim, Hyun Suk Kim, and Dong Jin Koh, as our Executive Director candidates to fill the positions of the former CEOs, Oh-Hyun Kwon, Boo-Keun Yoon, and Jong-Kyun Shin. On their appointment to Executive Director, the three candidates will serve as co-CEOs and carry out responsible management while independently leading each business. The candidates played a key role in the Company's growth by assisting the former CEOs and demonstrated their expertise and capabilities. We expect them to lead the Company's growth and expansion.

## Agenda 2.3 Appointment of Audit Committee Member

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### **Sun Uk Kim, PhD (newly nominated)**



- As an expert in the field of law, Sun Uk Kim is well equipped to perform her role on the Audit Committee with honesty and integrity. Furthermore, her term as president of Ewha University (July 2010–July 2014) provided invaluable experience in operating and managing diverse in-school organizations in areas such as public administration, finance, and communication. We thus expect her to competently fulfill her duties on the Committee, which include reviewing matters of importance from diverse perspectives.

## **Independent Director Nominees**

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### **Jeong Hun Kim, PhD**

Birth: August 13, 1960

Dr. Jeong Hun Kim served as a nuclear submarine officer in the US Navy from 1982 until 1989. He founded Yurie Systems in 1992 and took the firm public in 1997. In 1998, Dr. Kim sold the company to and then served Lucent Technologies as a Senior Executive and Corporate Officer. He joined the University of Maryland from 2001 to 2013, teaching in both the Department of Electrical and Computer Engineering and the Department of Mechanical Engineering. From 2005 until 2013, he worked at what would become Alcatel-Lucent as president of the Bell Labs division and as Chief Strategy Officer in his final two years there. He co-founded and became Executive Chairman of Kiswe Mobile in 2013. Dr. Kim earned his BS in electrical engineering and computer science at Johns Hopkins University, his MS in technical management (also from Johns Hopkins), and his PhD in reliability engineering from the University of Maryland.

### **Sun Uk Kim, PhD**

Birth: December 21, 1952

Dr. Sun Uk Kim joined the School of Law at Ewha Womans University as a Professor in 1995, and advanced to a President of the university from 2010 until 2014. Dr. Kim served as Minister of Government Legislation from 2005 to 2007, the first female to hold that position. She has been Chairperson of Alumninetzwerk Deutschland Korea (ADeKo) from 2011 to 2014 and a Co-President at Korea-Germany Forum from 2012 to 2016. She acted as a Co-President for the Advisory Panel of National Assembly Special Committee on Constitutional Amendment in 2017. She earned both her LL.B. and LL.M in law from Ewha Womans University and her Dr. juris in administrative law from University of Konstanz in Germany.

### **Byung Gook Park, PhD**

Birth: April 19, 1959

Dr. Byung Gook Park worked at AT&T Bell Labs from 1990 until 1992 and then at Texas Instruments from 1993 until 1994. He joined the School of Electrical Engineering at Seoul National University in 1994 as a Professor and advanced to the position of Vice Chair. He took the position of Director at the Inter-University Semiconductor Research Center (ISRC) from 2008 to 2010. Dr. Park became a member of the National Academy of Engineering of Korea in 2014 and President of the Institute of Electronics and Information Engineers in 2015. Dr. Park was instrumental in developing NOR flash memory. He earned his BSc and MSc in electronics engineering at Seoul National University and his PhD in electrical engineering from Stanford University.



## Executive Director Nominees

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### Sang Hoon Lee

Birth: June 15, 1955

Mr. Sang Hoon Lee started his career with Samsung in 1982 as an accountant with Samsung Semiconductor & Telecommunications and joined Samsung Electronics in 1988. In 1990, he started serving in the Samsung Chairman Office and moved to the Corporate Management Group in 1994. Mr. Lee was appointed Chief of Finance/Management at Samsung Electronics North America in 1999, and then moved to the Finance Team of Samsung Corporate Restructuring Department in 2004. He became a part of the Strategy Management Team of Samsung Electronics Strategic Planning office in 2006 and Head of the Business Management Team in 2008. Mr. Lee expanded his role to Head of Samsung Future Strategy Office Team 1 in 2010, served as CFO, President, and Corporate Management Officer from 2012 to 2017, and was a member of the Board from 2013 to 2016. Mr. Lee also served on the Board at Harman International Industries from March 2017 until he stepped down as Samsung Electronics CFO in October 2017. He earned his BA in Economics from Kyungpook National University.

### Ki Nam Kim, PhD

Birth: April 14, 1958

Dr. Ki Nam Kim became Head of Device Solutions in late 2017. Prior to that, he served as President of the Semiconductor (2014-2017) and Memory Businesses (2013-2014) after moving from the role of CEO at Samsung Display (2012-2013). Dr. Kim started with Samsung Electronics in 1981 and spent six years as an engineer at the Semiconductor R&D Group. From 1987, backed by his leadership in the development of numerous breakthroughs in semiconductor technology, his R&D responsibilities steadily increased and he rose to serve as Executive Vice President and General Manager of the Semiconductor R&D Center from 2007 to 2009 and President of Samsung Advanced Institute of Technology from 2010 to 2012. Dr. Kim's current professional affiliations include Vice President of the Board of Directors of the Korean National Academy of Engineering, Chairman of Korea Printed Electronics Association, Member of the President's Council at Olin College (US), and Adjunct Professor of Electrical Engineering at Pohang University of Science and Technology, KAIST, and Seoul National University. He earned his PhD from UCLA in 1994, MS from KAIST in 1983, and BS from Seoul National University in 1981, all in Electrical Engineering.

### Hyun Suk Kim

Birth: January 23, 1961

Mr. Hyun Suk Kim became Head of Consumer Electronics in late 2017. Mr. Kim joined the Company as a Senior Researcher in 1992 and developed a number of breakthrough technologies as Senior Vice President of the R&D team, leading to his promotion to the head of the Visual Display Business in December 2011. To prepare for growth, he also manages Samsung's B2B display business. In 2014, Mr. Kim was awarded the Bronze Medal of Industrial Effort, one of the most prestigious awards granted by the Korean government, in recognition of his exemplary leadership in industry. He also served as Chairman of the Korea-based Smart TV Forum from 2012 to 2015. Mr. Kim earned his Bachelor's degree in Electrical Engineering from Hanyang University and Master's degree in Electrical Engineering from Portland State University.

### Dong Jin Koh

Birth: March 26, 1961

Mr. Dong Jin Koh became Head of IT & Mobile Communications in late 2017. Mr. Koh also has served as Samsung Electronics' President of Mobile Communications Business since December 2015. Previously, he headed a number of teams and groups in the mobile business, including Mobile R&D from 2014 to 2015, the Technology Strategy Team from 2011 to 2014, the Development Management Team from 2007 to 2011, the Global Product Planning Group from 2006 to 2007, and the Samsung Electronics R&D Institute (UK) from 2002 to 2006. Mr. Koh was instrumental in helping Samsung establish a strong foothold in North America in the mid-2000s, and launch key devices and services including flagship models, the Galaxy Gear line, Samsung Pay, and Samsung Knox. Mr. Koh joined Samsung Electronics in 1984 and spent over a decade in Human Resources before joining the mobile business. He graduated from Sungkyunkwan University with a Bachelor of Arts in Industrial Engineering and earned a Master of Science in Technology Policy from the University of Sussex in 1993.

# Agenda 3. Approval of Remuneration Limits for Directors (FY2018)

## Compensation Committee

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Samsung Electronics in 2009 established the Compensation Committee. The Committee is comprised entirely of Independent Directors to ensure the objectivity and transparency of decision making regarding director remuneration. It is responsible for assessing the appropriateness of director compensation and reviewing the limit on director compensation for the next fiscal year, which will be up for approval by the shareholders at the Annual General Meeting of Shareholders.

### I . Executive Director Remuneration

#### Remuneration Structure

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Our Executive Director remuneration program is designed to emphasize the link between performance and compensation. The remuneration plan consists of two elements: **1) general compensation; and 2) three-year long-term incentive (LTI).**

##### □ General Compensation

General compensation includes base salary and annual incentives.

- Annual incentives are based on achievements and financial performance in each business segment.

##### □ LTI

The Company determines LTI by conducting performance evaluations on a three-year interval, and distributes 50%, 25%, and 25% of the incentive in the following three years, respectively. Samsung Electronics adopted the LTI system in 2005.

	Term 1	Term2	Term 3	Term 4
Evaluation period:	2005–2007	2008–2010	2011–2013	2014–2016
payment period:	2008	2011–2013	2014–2016	2017–2019

##### *Evaluation criteria*

Comparison of 3-year **ROE, stock performance, EBIT Margin**

- ROE and EBIT margin in each business segment are measured against figures at global peers.
- Stock performance is measured against that of the KOSPI and of global peers.

##### *Clawback Policy*

The LTI plan features a clawback policy (or recovery plan) that enables the Company to reduce awarded payments if any financial losses, such as contingent liabilities, are found after the LTI was determined. The plan's deferral of and ability to recover payments is designed to enhance management responsibility.

## FY2017 Remuneration (Actual)

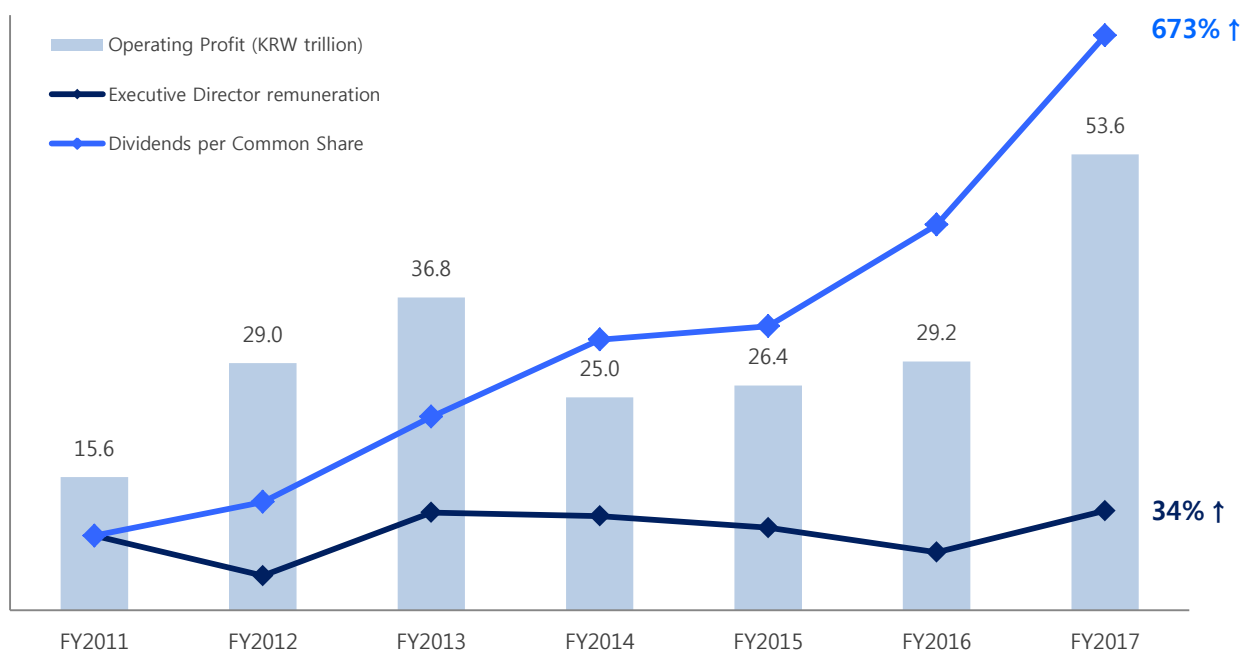
(Unit: KRW billion)

	FY2017		FY2016
	Approved	Actual	Actual
General compensation <sup>1</sup>	30.0	28.5	16.8
Long-term Incentive (LTI)	25.0	16.5	7.8
Total	55.0	45.0	24.6

1) Includes Independent Directors (KRW 0.4 billion)

- General compensation payment increased significantly year-over-year due to a one-time bonus to the CEO of the semiconductor business for record-high profit at the division. The increase was partially offset by Jae-Yong Lee not receiving compensation from March 2017.
- LTI paid increased year-over-year as the Company entered year one of a new three-year term of the payout scheme and distributed 50% of LTI compared to the 25% it paid in 2016 in the third year of the previous term.

### Comparison of remuneration and dividends



\* Dividends and remuneration are indexed to FY2011

### Executive Director remuneration in FY2016 and the first half of FY2017

(Unit: KRW billion)

	FY2017			FY2016					
	H1			H1			Year		
	Salary	Bonus/ other	Total	Salary	Bonus/ other	Total	Salary	Bonus/ other	Total
OH Kwon	<b>0.9</b>	<b>13.0</b>	<b>14.0</b>	1.0	1.9	2.9	1.9	4.8	6.7
BK Yoon	<b>0.9</b>	<b>4.2</b>	<b>5.1</b>	0.9	0.8	1.6	1.7	3.3	5.0
JK Shin	<b>0.9</b>	<b>4.2</b>	<b>5.1</b>	0.9	0.8	1.7	1.7	2.3	4.0
JY Lee	<b>0.3</b>	<b>0.5</b>	<b>0.8</b>	-	-	-	0.5	0.7	1.1

- In accordance with the related laws, each Director's compensation is disclosed on a half-year basis. Annual remuneration for FY2017 will be disclosed and available on the website by the end of April.
- Bonus/other includes annual incentive and LTI. Bonus in 2017 increased compared to that of 2016, as 2017 comes under the first year of current term LTI (50%), while 2016 was under the third year of previous term (25%). For OH Kwon, bonus includes one-time payment for record-high profit at the semiconductor business.
- JY Lee's totals are based on the time from his appointment in October for 2016 and until end-February in 2017

### Global Peer Comparison

- Actual remuneration is substantially below levels at global peers.

(Unit: USD million)

	SEC	Peer Companies					
		Intel	Apple	Alphabet	Microsoft	IBM	HP
Total	<b>17.0</b>	59.5	91.3	243.8	49.6	55.5	56.6
Per person	<b>4.3</b>	14.9	22.8	60.9	12.4	13.9	14.2
As percentage of net profit	<b>0.1%</b>	0.6%	0.2%	1.3%	0.2%	0.5%	2.3%

\* Based on FY2016 data for SEC's four Executive Directors and the top four executives at global peers

## FY2018 Remuneration (To Be Approved)

The Board of Directors recommends a remuneration limit of KRW 46.5 billion for FY2018 .

(Unit: KRW billion)

	FY2018	FY2017
Number of Directors	11	9
General compensation <sup>1</sup>	37.5	30.0
LTI	9.0	25.0
Total	46.5	55.0

1) Includes Independent Directors

### □ General compensation

- The BOD recommends increasing the remuneration limit by 25%, considering the number of Executive Directors has risen from four in 2017 to five in 2018.

### □ LTI

(Unit: KRW billion)

	Current term		Previous term
Evaluation period	2014–2016		2011–2013
Payment period	2017–2019		2014–2016
	<i>Limit</i>	<i>Actual</i>	Limit
Payment year 1 (2017)	25	16.5	18 (2014)
Payment year 2 (2018)	9	-	9 (2015)
Payment year 3 (2019)	9	-	9 (2016)

- The Board recommends setting the LTI limit at KRW 9 billion for FY2018, year 2 of the current term (25%).
- In February 2017, the Board recommended setting the LTI limit for the current term (to be paid over 2017–2019) at KRW 50 billion. As the actual amount to be paid had not been determined at the time, the Board set the amount reflecting the necessary increase from the previous term's LTI limit (KRW 36 billion). Based on the payment schedule for the term, paying respective portions of 50% in 2017, 25% in 2018, and 25% in 2019, an LTI limit of KRW 25 billion was approved for 2017.
- The actual payment in 2017 was KRW 16.5 billion, substantially lower than the approved amount. Accordingly, the Board recommends adjusting the LTI limit to KRW 9 billion for 2018, year two (25%) of the current term.

## II. Independent Director Remuneration

(Unit: KRW million)

	FY2017	FY2016
Number of Independent Directors	5	5
Total remuneration	409	444
Average remuneration	82	89

\* The average remuneration per person was produced by dividing the total amount of remuneration by the average number of people.

# Agenda 4. Approval of Stock Split and related Amendments to the Articles of Incorporation

## Overview

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Over the past few years, the price of our stock rose significantly on the back of our earnings growth and proactive shareholder return programs. Against this backdrop, the Board of Directors on January 31 approved a 50-for-1 stock split. We believe a split will make our shares more accessible, add liquidity, and enable a greater number of investors to benefit from our dividends, which will increase significantly from 2018. Accordingly, the Board is seeking your approval of the stock split and necessary revisions to Articles of Incorporation in order to conduct a split.

## Amendments to the Articles of Incorporation

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Original Language	Revised Language (2018)
<b>Article 5. (The Amount of Authorized Capital)</b> The total number of shares to be issued by the Company shall be <u>500,000,000</u> shares.	<b>Article 5. (The Amount of Authorized Capital)</b> The total number of shares to be issued by the Company shall be <u>25,000,000,000</u> shares.
<b>Article 6. (Face Value per Share)</b> The face value of shares issued by the Company shall be <u>5,000 Won</u> per share.	<b>Article 6. (Face Value per Share)</b> The face value of shares issued by the Company shall be <u>100 Won</u> per share.
<b>Article 8. (Types of Shares and Share Certificates)</b> 2. Preferred shares to be issued by the Company shall be cumulative and non-voting, and the number thereof shall be <u>100,000,000</u> shares.	<b>Article 8. (Types of Shares and Share Certificates)</b> 2. Preferred shares to be issued by the Company shall be cumulative and non-voting, and the number thereof shall be <u>5,000,000,000</u> shares.

# 2

## Information About the Meeting And Shareholder Rights

### Overview

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The General meeting of shareholders is the Company's highest decision-making body, where shareholders deliberate and decide on important issues concerning the Company.

#### □ Convening

General meetings of shareholders shall be either ordinary or extraordinary meetings.

- Ordinary general meetings—held within three months of the close of the fiscal year
- Extraordinary general meetings—held whenever deemed necessary

\* Extraordinary general meetings may be called by the Board of Directors or by persons as authorized by the Articles of Incorporation and the Commercial Code, and convened in accordance with the relevant procedures.

#### □ Parties with authority to convene meetings

Persons or parties authorized to call ordinary and extraordinary general meetings under the Articles of Incorporation and the Commercial Code:

- Board of Directors
- Audit Committee
- Shareholders

\* According to the Commercial Code, shareholders who have owned at least 1.5% of outstanding shares with voting rights of the Company for more than six months may request to convene extraordinary general meetings.

#### □ Notice of convening

Pursuant to the Article 17-3 of the Articles of Incorporation, a written or electronic notice thereof setting forth the time, date, place, and agenda of the meeting shall be sent to the shareholders at least two weeks prior to the general meeting of shareholders.

\* For the purpose of transparency and protecting shareholder voting rights, the Company currently has a policy to notify the shareholders of the AGM at least three or four weeks prior to the general meeting of shareholders.

## Operation

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In accordance with our Article of Incorporation, each shareholder is entitled to one vote per share. The Company does not have any system or method (such as a dual class voting structure, etc.) to discriminate shareholders' voting rights.

### ☐ Method of Adopting Resolutions at AGM

#### *1. Ordinary Resolution*

- Pursuant to the Commercial Code and the Articles of Incorporation, resolutions shall be passed by more than one half (1/2) of votes of the shareholders present at the general meeting of shareholders and by more than one fourth (1/4) of outstanding votes.
- Items of Ordinary Resolutions: Election of Directors, remuneration for Directors, approval of financial statements, etc.

#### *2. Extraordinary Resolution*

- Pursuant to the Commercial Code and the Articles of Incorporation, resolutions for matters that are significant to the Company's operation, including but not limited to Articles of Incorporation amendments and mergers & acquisitions, shall be passed by two thirds (2/3) of votes of the shareholders present at the general meeting of shareholders and by more than one third (1/3) outstanding votes.
- Items of Extraordinary Resolutions: Amendment to the Articles of Incorporation, dismissal of Directors, approval of split or merger of the Company, etc.
- With regards to shareholder voting rights, the Company does not have a written consent, pursuant to the Articles of Incorporation. However, the Company presents proxy solicitation at the AGM according to the local regulations permitting substitution for written consent.

\* In voting, blank votes submitted by shareholders in the form of proxy (power of attorney) are invalid and do not count in tallying AGM votes according to the Korean authority guidelines on proxy solicitation.

### ☐ Protection of minority shareholders concerning AGM

We are committed to protecting the rights of the Company's minority shareholders, whose rights are set forth below:

#### *1. Right to call general meetings of shareholders*

- In accordance with the Commercial Code, shareholders who own more than 1.5% of outstanding shares with voting rights of the Company for more than six month may request to convene extraordinary general meetings.

#### *2. Right to present shareholder proposals*

- Pursuant to the Commercial Code and the Articles of Incorporation, shareholders with ownership of more than 0.5% of outstanding shares with voting rights for more than six months may present shareholder proposals at an AGM.



## Overview – The Board of Directors

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Our Corporate Governance strives to enhance the Company’s decision-making and supervisory processes based on the highest standards of governance, transparency, and accountability. Under this policy, the Board of Directors (BOD) evaluates the performance of management, sets corporate management policies, and makes strategic decisions on business execution. These activities are performed in accordance with relevant laws and regulations, the Article of Incorporation, and resolutions made at the annual general meetings of shareholders (AGM).

The BOD is composed of four executive directors and five independent directors, with Independent Director majority guaranteeing independence and transparency. In addition, the BOD has established a transparent decision-making process that seeks input from a broad spectrum of outside experts. Pursuant to the Articles of Incorporation, the Independent Directors Recommendation Committee initially selects candidates from a pool of professional experts with in-depth knowledge and experience in a variety of areas, including but not limited to business management, economic, accounting, law, technology, and CSR.

The Independent Directors meet separately from the BOD’s Executive Directors in order to promote a free exchange of ideas on all aspects of the Company’s management. All directors are prohibited from engaging in business activities within the same industry without the approval of the BOD. This arrangement is to prevent a conflict between interests as specified in the Korean Commerce Act and the Company’s Articles of Incorporation.

### □ BOD Members (as of February 2018)

Executive Directors:	Dr. Oh-Hyun Kwon (Chairman of the BOD) Mr. Boo-Keun Yoon, Mr. Jong-Kyun Shin, Mr. Jae-Yong Lee
Independent Directors:	Mr. In-Ho Lee, Dr. Han-Joong Kim, Mr. Kwang-Soo Song, Dr. Byeong-Gi Lee, Dr. Jae-Wan Bahk

### □ Chairman of the Board

In conformance with Article 29 of our Articles of Incorporation, the Chairman of the Board of Directors shall be appointed from among the directors by a resolution of the Board (revised at the 2016 AGM).

### □ Responsibilities and duties of Directors

Pursuant to the Article 27-2 of our Articles of Incorporation, each Director shall have a fiduciary duty in performing his or her duties. Pursuant to the Article 32 Prohibition of Competition by Directors, no Director shall effect any transaction which falls within the same class of business as that of the Company without the consent of the BOD or such committee as authorized by the Board of Directors, except when a Director is elected with the knowledge that his business is in competition with the Company. Also, a Director shall resign in case he or she serves a company in competition with the Company or becomes a public official. In accordance with relevant laws, a Director may not serve on the Board if he or she becomes a public official.

## □ Director Independence

Director independence shall be determined by the independence requirements set forth by the Korean Stock Exchange listing standards, the Commercial Code, and other related regulations. A Director may not be deemed independent if he or she fails to meet the criteria of applicable standards.

## □ Election of Directors

Regulations regarding the election, term of office, and election of Directors in case of a vacancy are included in the Article 24 of our Articles of Incorporation.

It states the Company shall have at least three, but not more than fourteen, directors and such directors shall be appointed at a general meeting of shareholders; provided, however, that independent directors shall be elected from candidates recommended by the Independent Director Recommendation Committee.

Pursuant to the Article 25 of our Articles of Incorporation, all of our Board members', elected by a resolution of the AGM, term of office is three years. At the time of expiration, they will stand for re-election at the AGM.

The BOD shall screen the qualifications of Executive Directors for Representative Director or Co-Representative Director position.

The Representative Director shall be elected by the Board of Directors, and shall represent the Company. In case there are several Representative Directors, each shall represent the Company respectively.

## □ Election of Directors in Case of Vacancy

Pursuant to Article 26 of our Articles of Incorporations, any vacancy in the office of director shall be filled by a resolution of a general meeting of shareholders. However, if the number of directors does not fall below the number prescribed by the Article 24 and there is no difficulty in the administration of business, the foregoing shall not be applicable.

## □ Convening of the Meeting of the Board of Directors

There are two types of the BOD meetings.

- Regular meetings—generally held four times a year (once per quarter)
- Extraordinary meetings—held whenever deemed necessary

The Chairman convenes meetings of the Board, and shall provide members with a notice of meeting, along with an agenda and reasons for the meeting, at least 24 hours in advance. The notice can be in written, oral, and/or electronic forms, and may be omitted with the consent of all Directors. The presence of a majority of all Directors shall constitute a quorum and resolutions shall be adopted by a majority of the votes of Directors attending the meeting; provided that the Board meeting may take place via electronic means, such as by conference call, within the scope provided by relevant laws. Any Director may convene a meeting with consent from the Chairman in the case where the meeting is deemed necessary for the purpose of carrying out his or her duties. If the Chairman rejects a meeting request without a valid reason, the Director who made the proposal may convene a meeting.

## Board Committees

### *The Management Committee*

The Management Committee deliberates and decides matters either delegated by the BOD, or specified in the Articles of Incorporation or Regulations of the Board of Directors, aiming to enhance professionalism and efficiency of decision making.

### *The Audit Committee*

The Audit Committee supervises and supports management to maximize corporate value using a system of checks and balances. The Committee consists of three Directors, and at least two thirds of them, according to relevant laws and regulations, must be Independent Directors.

### *The Independent Director Recommendation Committee*

The Independent Director Recommendation Committee ensures that outside directors are recruited and recommended in a fair and independent matter. The Committee currently consists of three Independent Directors and one Executive Director.

### *The Related Party Transaction Committee*

The Related Party Transaction Committee (also known as Internal Transaction Committee) is a compliance body to enhance corporate governance and to promote fair transaction. The Committee reviews pending transactions between the company and its related parties

### *The Compensation Committee*

The Compensation Committee evaluates the appropriateness of and reviews and approves the limit on Director's compensation to be submitted for resolution at a general meeting of shareholders. The Committee comprises three Independent Directors.

### *The Governance Committee*

The Governance Committee carries out all responsibilities previously handled by the CSR Committee, addresses matters that affect shareholder value, and endeavors to enhance communication with our shareholders.

### □ Composition of the BOD committees (as of February 2018)

Committee	Members		
	Chair	Executive Directors	Independent Directors
<b>Management</b>	Dr. Oh-Hyun Kwon (Executive)	Mr. Boo-Keun Yoon Mr. Jong-Kyun Shin	-
<b>Audit</b>	Mr. In-Ho Lee (Independent)	-	Dr. Han-Joong Kim Mr. Kwang-Soo Song
<b>Independent Director Recommendation</b>	Dr. Han-Joong Kim (Independent)	Dr. Oh-Hyun Kwon	Dr. Byeong-Gi Lee Dr. Jae-Wan Bahk
<b>Related Party Transactions</b>	Mr. In-Ho Lee (Independent)	-	Dr. Han-Joong Kim Mr. Kwang-Soo Song
<b>Compensation</b>	Mr. Kwang-Soo Song (Independent)	-	Mr. In-Ho Lee Dr. Byeong-Gi Lee
<b>Governance</b>	Dr. Byeong-Gi Lee (Independent)	-	Mr. In-Ho Lee Dr. Han-Joong Kim Mr. Kwang-Soo Song Dr. Jae-Wan Bahk

## Profile of BOD Members (Executive)

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**Oh-Hyun Kwon**  
Birth: October 15, 1952

Director since 2012  
(Re-elected in 2015)

Dr. Oh-Hyun Kwon joined Samsung Electronics' Semiconductor Business in 1985. In 1998, he became Senior Vice President of the System LSI Division's ASIC business and in 2000 rose to Executive Vice President and Head of LSI Technology. He served as President and Head of the System LSI division from 2004 to 2008 and then of the Semiconductor Business from 2008 to 2011. He was appointed Vice-Chairman and Head of the Device Solutions Division in 2011 and acted in that role until late 2017. He has also served as Vice Chairman and Head of Samsung Advanced Institute of Technology (2013-2015), Vice Chairman and co-CEO of Samsung Electronics (2012-2017), and Vice Chairman and CEO of Samsung Display (2016-2017). In 2017, he was promoted to Chairman of Samsung Advanced Institute of Technology. Dr. Kwon earned his BS from Seoul National University, MS from KAIST, and PhD from Stanford University, all in electrical engineering.



**Jong-Kyun Shin**  
Birth: January 16, 1956

Director since 2013  
(Re-elected in 2016)

Jong-Kyun Shin has played a prominent role in Samsung Electronics' mobile business for over a decade. He acted as Head of the Mobile R&D Office from 2006 to 2009 and the Mobile Communications Business from 2009 to 2011. Mr. Shin advanced to become Head of the IT & Mobile Communications Division, serving in that position from 2011 to 2012, and was promoted to President in 2012. He became President and CEO of the division in 2013 and also served as co-Chief Executive Officer until 2017. In 2017, he was appointed Vice Chairman of human resources development. Mr. Shin earned his BS in electrical engineering from Kwangwoon University.



**Boo-Keun Yoon**  
Birth: February 6, 1953

Director since 2013  
(Re-elected in 2016)

Boo-Keun Yoon headed the R&D Team of the Visual Display Business from 2003 to 2007 and was then appointed to Head of the Visual Display Business, where he served for four years. He acted as Head of the Consumer Electronics Division from 2011 to 2012 and was promoted to President in 2012. Mr. Yoon was co-Chief Executive Officer of Samsung Electronics from 2013 until late 2017. In 2017, he was promoted to Vice Chairman of corporate relations. Mr. Yoon holds a BS in electronic engineering from Hanyang University.



**Jae-Yong Lee**  
Birth: June 23, 1968

Director since 2016

Jae-Yong Lee began his career at Samsung Electronics in 1991 and held the position of Chief Customer Officer from 2007 to 2008. He served as Executive Vice President and Chief Operating Officer in 2010 and then as President and COO from 2010-2012. In 2012, Mr. Lee advanced to his current position of Vice Chairman of the Company. He has been the Chairman of both the Samsung Foundation of Culture and Samsung Life Public Welfare Foundation since 2015. He also acted as an Independent Director for Exor N.V. from 2012 to 2017. Mr. Lee graduated from Seoul National University, received a Master's degree in business administration from Keio University in Japan, and completed doctoral coursework at Harvard Business School.

## Profile of BOD Members (Independent)

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***In-Ho Lee***

Birth: November 2, 1943

Director since 2010  
(Re-elected in 2013, 2016)

In-Ho Lee started his career with Korea Commercial Bank in 1966 and then joined Daegu Bank in 1973. In 1982, Mr. Lee moved to Shinhan Financial Group as an early member of Shinhan Bank. He served as a Director and Deputy President (Executive Vice President) of the Bank from 1991 to 1999, President & CEO from 1999 to 2003, and then Vice Chairman from 2003 to 2005. He progressed to the role of as CEO of Shinhan Financial Group over 2005 to 2009 and then acted as a Corporate Advisor for Shinhan Bank from 2009 to 2011. Mr. Lee holds BA in economics from Yonsei University. He has been an Independent Director for Samsung Electronics since 2010.



***Kwang-Soo Song***

Birth: January 4, 1950

Director since 2013  
(Re-elected in 2016)

Kwang-Soo Song has been an advisor at Kim & Chang law office and an adjunct professor of law at Seoul National University since 2007. Mr. Song passed the Korean judicial/bar examination in 1971 and then held various positions as a prosecutor – including Senior Prosecutor at the Ministry of Justice from 2001 to 2002, Chief Prosecutor at Daegu High Prosecutors' office from 2002 to 2003, and Prosecutor General at the Supreme Prosecutors' Office from 2003 to 2005 – before becoming a solicitor in 2005. Mr. Song received BA in law from Seoul National University. He has been an Independent Director at Samsung Electronics since 2013.



***Jae-Wan Bahk***

Birth: January 24, 1955

Director since 2016

Dr. Jae-Wan Bahk has been a professor at Sungkyunkwan University's Graduate School of Governance since 1996 and served as Dean from 2015 to 2016. Dr. Bahk was a member of the 17th National Assembly from 2004 to 2008, and went on to serve as Senior Secretary to the President for National Vision, Agenda & Strategy from 2008 to 2010, Minister of Employment and Labor from 2010 to 2011, and Minister of Strategy and Finance from 2011 to 2013. Dr. Bahk earned his BA in Economics from Seoul National University in 1977 and PhD in Public Policy from Harvard University in 1988. He has been President of the Hansun Foundation for Peace & Prosperity of the Korean Peninsula since 2014 and an Independent Director at Samsung Electronics since 2016.



***Byeong-Gi Lee***

Birth: May 12, 1951

Director since 2012  
(Re-elected in 2015)

Dr. Byeong-Gi Lee became a professor at Seoul National University's School of Electrical Engineering in 1986 and Professor Emeritus in 2016. He served as the Director of the Institute of New Media and Communications in 2000 and the Vice Chancellor for Research Affairs from 2000 to 2002. Dr. Lee was President of the Korea Society of Engineering Education from 2003 to 2004 and Korea Information and Communication Society in 2007, and Commissioner of the Korea Communications Commission from 2008 to 2010. He also served as President of the IEEE Communications Society from 2010 to 2011. Dr. Lee earned his B.S in Electronics Engineering from Seoul National University and PhD. from UCLA in Electrical Engineering. He has been an Independent Director at Samsung Electronics since 2012.



***Han-Joong Kim***

Birth: November 2, 1948

Director since 2012  
(Re-elected in 2015)

Dr. Han-Joong Kim was a professor at Yonsei University's Department of Preventive Medicine & Public Health from 1982 to 2012, served as the university's President from 2008 to 2012, and became Professor Emeritus in 2012. Dr. Kim was President of The Korean Society of Health Policy and Administration from 2000 to 2002, a member of the National Economic Advisory Council over 2001 to 2003, and Chairman of the Board for the Korean Society for Preventive Medicine from 2006 to 2008. He served as a Trustee for the Korean Council for University Education from 2008 to 2012 and Chairman of the Korea University Sport Federation over 2010 to 2012. He is currently Chairman of the CHA Strategy Committee at CHA Health Systems, a role he took in 2012. Dr. Kim received his MD from Yonsei University College of Medicine, Master's degree in Public Health from Yonsei University, and PhD in Public Health from Seoul National University. He has been an Independent Director

## BOD Activities

The following table presents meetings and voting results that were held by the Board and the Committees under the Board between January 2017 and December 2017.

### □ BOD Meetings in FY2017

#### Board Meetings and Voting Results of Independent Directors

Date	Agenda	IH Lee	HJ Kim	KS Song	BG Lee	JW Bahk
		Vote				
Jan 24 2017	① Approval of FY16 financial statements and annual business report	For	For	For	For	For
	② Buyback and cancellation of treasury stocks	For	For	For	For	For
	③ Panel development contract with Samsung Display	For	For	For	For	For
Feb 24 2017	① Decision to convene the 48 <sup>th</sup> (FY16) AGM	For	For	For	For	For
	② Decision of the 48 <sup>th</sup> AGM agenda items	For	For	For	For	For
	③ Guidelines for external contributions (draft)	For	For	For	For	For
	④ Application for product liability insurance	For	For	For	For	For
Mar 24 2017	① Setting Director remuneration	For	For	For	For	Absent
	② Approval of management plans for the Social Contribution Fund for 2017	For	For	For	For	Absent
	③ Sponsorship of the WorldSkills Competition	For	For	For	For	Absent
Apr 27 2017	① Approval of the 1Q17 financial statements, business report and March quarterly dividend	For	For	For	For	For
	② Buyback and cancellation of treasury shares	For	For	For	For	For
	③ Cancellation of treasury shares	For	For	For	For	For
	④ Revision to CSR committee regulations	For	For	For	For	For
	⑤ Donation	For	For	For	For	For
	⑥ Property leasing contract with Samsung Display and compensation for the disposal of a property	For	For	For	For	For
	⑦ Facility development contract with Samsung Display	For	For	For	For	For
Jun 12 2017	① Property leasing contract with Samsung Display	For	For	For	For	For
	② Approval of test facility supply transactions with Samsung Display	For	For	For	For	For
Jul 27 2017	① Approval of the 1H FY17 financial statements, half-year business report, and June quarterly dividend	For	For	For	For	For
	② Buyback and cancellation of treasury shares	For	For	For	For	For
	③ Application for property insurance	For	For	For	For	For
	④ Panel development contract with Samsung Display	For	For	For	For	For
Oct 31 2017	① Approval of the 3Q17 financial statements, business report and September quarterly dividend	For	For	For	For	For
	② Buyback and cancellation of treasury stocks	For	For	For	For	For
	③ Approval of shareholder return policy covering 2018-2020	For	For	For	For	For
Nov 24 2017	① Approval of transactions with affiliate person(s)	For	For	For	For	For
	② Payment of retirement pensions	For	For	For	For	For
	③ Contribution for Special Disaster Area in Pohang	For	For	For	For	For
	④ Contribution for 2018 Winter Fundraising Campaign	For	For	For	For	For

\* IH Lee: In-Ho Lee, HJ Kim: Han-Joong Kim, KS Song: Kwang-Soo Song, BG Lee: Byeong-Gi Lee, JW Bank: Jae-Wan Bahk

## □ Committee participation of Independent Directors in FY2017

### *Audit Committee*

Date	Agenda
Jan 23 2017	① Report on 2016 financial statement and annual business report ② Report on 2016 internal accounting management system activities ③ Report on 4Q16 non-audit activities ④ Report on 2016 audit activities ⑤ Report on plans to appoint external auditor
Feb 22 2017	① Approval of appointment of external auditor
Feb 24 2017	① Review on the 48 <sup>th</sup> AGM agenda ② Assessment of 2016 activities of internal compliance system
Apr 26 2017	① Report on 1Q17 financial statement and business report ② Report on 1Q17 non-audit activities ③ Report on 1Q17 external contributions
Jul 26 2017	① Report on 1H17 financial statements and half-year business report ② Report on 2Q17 non-audit activities ③ Report on 2Q17 external contributions ④ Report on 1H17 audit activities
Oct 30 2017	① Report on 3Q17 financial statement and business report ② Report on 3Q17 non-audit activities ③ Report on 3Q17 external contributions

### *Governance Committee*

Date	Agenda
Feb 24 2017	① Report on 1Q17 results of CSR risk management Council
Apr 24 2017	① Report on updates of IR activities ② Report on 2Q17 results of CSR risk management Council
Jun 12 2017	① Review on establishment of corporate governance charter ② Review on Governance Committee operation
Jul 27 2017	① Report on updates of IR activities ② Report on 3Q17 results of CSR risk management Council
Oct 31 2017	① Review on shareholder return policy covering 2018-2020 ② Report on 4Q17 results of CSR risk management Council

\* The Governance Committee was expanded from the CSR committee and will carry out activities to increase shareholder value in addition to the activities previously handled by the CSR Committee.

### *Related Party Transactions Committee*

Date	Agenda
Jan 23 2017	① Report on 4Q16 related party transaction
Feb 22 2017	① Prior review on large-scale related party transactions 1) Application for product liability insurance
Apr 26 2017	① Prior review on large-scale related party transactions 1) Donation 2) Property leasing contract with Samsung Display and compensation for the disposal of a property ② Report on 1Q17 related party transactions
Jun 12 2017	① Prior review on large-scale related party transactions 1) Property leasing contract with Samsung Display
Jul 26 2017	① Prior review on large-scale related party transactions 1) Application for property insurance ② Report on 2Q17 related party transactions
Oct 30 2017	① Report on 3Q17 related party transactions
Nov 24 2017	① Prior review on large-scale related party transactions 1) Approval of large-scale good and services transaction for 2018 2) Payment of retirement pensions

### *Compensation Committee*

Date	Agenda
Feb 22 2017	① Appointment of the head of the Independent Director Recommendation Committee ② Prior review on 2017 remuneration ceiling for Directors



*BOD Meeting Attendance*

	Name	2015	2016	2017	Total	
		<i>Mar 2015 - Feb 2016</i>	<i>Mar 2016 - Feb 2017</i>	<i>Mar 2017 - Dec 2017</i>		
		Attendance			Total meetings	Overall attendance
<b>Executive Directors</b>	Oh-Hyun Kwon	8/8	11/11	6/6	25	25
	Boo-Keun Yoon	7/8	11/11	6/6	25	24
	Jong-Kyun Shin	5/8	10/11	5/6	25	20
	Jae-Yong Lee <sup>1</sup>	-	3/5	0/6	11	3
<b>Independent Directors</b>	In-Ho Lee	8/8	11/11	6/6	25	25
	Han-Joong Kim	8/8	11/11	6/6	25	25
	Byeong-Gi Lee	7/8	11/11	6/6	25	24
	Kwang-Soo Song	8/8	11/11	6/6	25	25
	Jae-Wan Bahk <sup>2</sup>	-	11/11	5/6	17	16

1) Appointed in October 2016.

2) Appointed in March 2016.

## Share Ownership Structure

### □ Overview

As of the end of 2017, the total number of shares outstanding was 147,349,074. The number of common and preferred shares outstanding were 129,098,494 (87.6%) and 18,250,580 (12.4%), respectively.

As of the end of 2017, the number of total treasury shares was 11,130,296 (7.6%), comprised of 9,410,125 common shares (7.3% of common shares outstanding) and 1,720,171 preferred shares (9.4% of preferred shares outstanding).

### *Ownership structure as of the end-FY2017*

	Foreign	Domestic institutional	Domestic individual	Controlling Shareholders	Treasury Shares
<b>Common</b>	53%	17%	3%	20%	7%
<b>Preferred</b>	81%	6%	3%	0.2%	9%

### *Major shareholders common stock as of end-FY2017*

Ranking	Owner	Number	Portion of total
1	National Pension Service of Korea	12,369,186	9.6%
2	Samsung Life Insurance Co., Ltd. <sup>1</sup>	11,089,529	8.6%
3	Samsung C&T Corp.	5,976,362	4.6%
4	Kun-Hee Lee	4,985,464	3.9%
5	CITIBANK.N.A <sup>2</sup>	4,930,457	3.8%
<b>Total Number of Outstanding Common Stock</b>		<b>129,098,494</b>	<b>100.0%</b>

1) The number of shares owned and share ratio includes special accounts.

2) Reported as an independent shareholder in the shareholder registry but is a GDR depository institution of Samsung Electronics representing our GDR shareowners

\* Single institution/fund in the shareholder registry

## □ Voting Shares

Samsung Electronics issued 129,098,494 common shares and 18,250,580 preferred shares. The 9,410,125 common shares held in treasury do not have voting rights. The 12,506,577 shares owned by affiliated companies have limited voting rights under relevant laws. Thus, the number of shares with voting rights is 107,181,792.

### Total shares with voting rights as of end-FY2017

Category	Type	Number of shares	Note
Number of outstanding shares (A)	Common	129,098,494	-
	Preferred	18,250,580	-
Treasury shares (no voting rights; B)	Common	9,410,125	Article 369-2 of the Commercial Act "Treasury Shares"
Shares with voting rights eliminated by Articles of Incorporation (C)	Preferred	18,250,580	1,720,171 (includes those held in treasury)
Shares with limited voting rights under relevant laws (D)	Common	12,479,184	Restricted by the Monopoly Regulation and Fair Trade Act: 10,622,814 shares held by Samsung Life Insurance; 1,856,370 shares held by Samsung Fire & Marine Insurance
	Common	27,393	Restricted by the Insurance Business Act: Some part of shares held by special account of Samsung Life Insurance
Shares with revived voting rights (E)	-	-	-
Total Shares with voting rights (F)	Common	107,181,792	(F = A - B - C - D + E)

\* Among shares with limited voting rights under relevant laws, part of 12,479,184 shares that are restricted by the Monopoly Regulation and Fair Trade Act can exercise voting right for appointment/dismissal of executives and modification of the articles of incorporation.

## □ Share ownership of BOD Members

The following table presents shares and stock options held by BOD members as of December 31, 2017.

(Unit: Share)

Name	Status	Since	Common Shares
Oh-Hyun Kwon	Executive Director	March 2012	500
Boo-Keun Yoon	Executive Director	March 2013	0
Jong-Kyun Shin	Executive Director	March 2013	0
Jae-Yong Lee	Executive Director	October 2016	840,403
In-Ho Lee	Independent Director	March 2010	0
Han-Joong Kim	Independent Director	March 2012	0
Byeong-Gi Lee	Independent Director	March 2012	0
Kwang-Soo Song	Independent Director	March 2013	0
Jae-Wan Bahk	Independent Director	March 2016	0

## Independent Auditor Fees

The following table presents fees for professional audit services rendered by Samil PricewaterhouseCoopers (Samil PwC) for the audit of Samsung Electronics' annual financial statements for the past three years (FY2014–2016), and fees billed for other services rendered by Samil PwC during those periods.

(Unit: KRW Million)

Year of operation	Auditor	Audit Services	Non-Audit Services	Audit Opinion
48 <sup>th</sup> (Jan 1, 2016–Dec 31, 2016)	Samil PwC	3,690	1,353	Fair
47 <sup>th</sup> (Jan 1, 2015–Dec 31, 2015)	Samil PwC	3,690	550	Fair
46 <sup>th</sup> (Jan 1, 2014–Dec 31, 2014)	Samil PwC	3,690	2,987	Fair

\* Non-Audit Services include advisory services on tax, establishment of regional HQ, and process improvement, etc.

## Global Code of Conduct & Business Conduct Guidelines

### □ Global Code of Conduct

Samsung Electronics aims to be a world-leading company devoting our human resources and technology to create superior products and services, thereby contributing to a better global society.

To achieve this goal, we share and pursue the Samsung Values of People, Excellence, Change, Integrity, and Co-prosperity and the 7 Factors of a World-Leading Company (Dream, Vision & Goal, Creativity & Challenge, Insight & Good Sense, Technology & Information, Trust & Credibility, Speed & Velocity, Change & Innovation) to be instilled in the individual employees and the organization.

Furthermore, Samsung Electronics employees follow Samsung's Global Code of Conduct to comply with laws and ethical practices as well as to express our concrete commitment to social responsibility. The Global Code of Conduct will be the guiding standard for everyone in Samsung Electronics, outlining conducts and value judgments in all business activities.

- We endeavor, with a sense of urgent awareness of the fact that we cannot survive without innovation, to achieve future competitiveness in Speedy response to the changes of environment and customer's demands, by maintaining the sustained attitude of Change & Innovation towards our Dream, Vision & Goal.
- We cultivate Creativity & Challenge, acknowledging that future competitiveness depends on the development of Technology & Information ahead of competitors.
- We aspire to become qualified experts in our field with Insight to foresee the future, and the Good Sense to identify and take advantage of opportunities.
- We create an open culture where senior staff lead and junior staff are encouraged to make decisions and act proactively with a sense of ownership, based on the mutual respect of individuality and Trust & Credibility.
- We pursue co-prosperity by maintaining relationships of Trust with shareholders and business partners, and facilitating sound management thought mutual cooperation.

## □ Business Conduct Guidelines

Over the years, expectations from various entities—including NGOs, governments, customers, shareholders, suppliers, and employees—have grown along with our responsibility as a global corporate citizen. In this spirit, Samsung Electronics has updated and revised its Business Conduct Guidelines that provide a specific direction for sustainable management, published for the first time in 2015.

You can read more information about Samsung's Global Code of Conducts and Business Conduct Guidelines from our website at:

<http://www.samsung.com/global/ir/governance-csr/global-code-of-conduct/>

## Policy on Related Party Transaction

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For transactions with specially related parties such as affiliates, the Company shall seek approval from the BOD and disclose the foregoing, in accordance with the Monopoly Regulation and Fair Trade Law and the Articles of Incorporation, in order to enhance corporate transparency.

### *- Article 40. (Approval of Transaction with Specially Related Parties, etc.)*

1. The Company shall obtain the approval from the Board of Directors in order to enter into the following transaction:
  - a. Large scale internal transactions as prescribed in Article 11-2 of Monopoly Regulation and Fair Trade Law ("FTL") with or for the Specially Related Party under FTL.

In the case of capital, securities and real estate transactions, etc. worth more than **KRW 5 billion**, the Company shall have the transaction approved at a Board meeting and disclose the foregoing.

## Corporate Governance Website

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You can read more information about Samsung's corporate governance practices from our website at:

- Articles of Incorporation  
<http://www.samsung.com/global/ir/governance-csr/articles-of-incorporation/>
- Global Code of Conduct  
<http://www.samsung.com/global/ir/governance-csr/global-code-of-conduct/>
- Corporate Social Responsibility  
<http://www.samsung.com/us/aboutsamsung/sustainability/strategy/>
- Board of Directors  
<http://www.samsung.com/global/ir/governance-csr/board-of-directors/>
- Board Committees  
<http://www.samsung.com/global/ir/governance-csr/board-committee/>

## Business Overview

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Samsung Electronics had an outstanding year in 2017 as we generated record-high results amid uncertainties caused by a rise in protectionism and geopolitical risks. Thanks to the tireless work of our employees and support of shareholders, we generated consolidated sales of KRW 240 trillion, operating profit of KRW 54 trillion. On a parent basis, sales reached KRW 162 trillion and operating income was KRW 35 trillion.

We maintained a solid financial structure, and as of end-2017, our debt ratio was 30.8%, capital adequacy ratio was 76.5%, and ROE was 19.9%. On a consolidated basis, the debt ratio was 40.7%, capital adequacy ratio was 71.1%, and ROE was 20.7%. The Samsung brand increased 9% in value to USD 56.2 billion and ranked as the world's 6th best, up one notch from 2016 (Interbrand, October 2017).

In terms of our businesses, we fortified our top market position and consolidated our industry leadership. We reinforced cost competitiveness in the component businesses based on our competencies in key technologies such as 10nm-class DRAM and fourth-generation V-NAND. In the set businesses, we launched the Galaxy S8/S8+ and Galaxy Note8 featuring Infinity Display, and increased shipments QLED TVs based on Quantum dot technology and The Frame TV offering an innovative design.

In 2018, we expect uncertainties such as geopolitical risks and protectionism to persist throughout the year, and in the rapidly changing IT industry, advancements in areas such as AI and big data coupled with intensifying competition, especially in our mainstay businesses, will pose challenges.

We will not dwell on our success, but rather use such an environment to seize new opportunities and are committed to delivering another highly successful year. At the same time, we will promote innovation and prepare thoroughly for mid- to long-term growth. We are confident that our efforts will elevate our earnings.

## Semiconductor

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Our semiconductor business, backed by increasing demand for major applications such as server and mobile, achieved record-high result on its efforts to differentiate products, reduce costs, and increase sales of high value-added products. We continued to invest pre-emptively, aiming to secure leading positions in next-generation technologies. Furthermore, we secured competitiveness to respond flexibly to product demand by starting production at our new Pyeongtaek fab and investing in additional lines.

For DRAM, demand increased mainly for sever and mobile needs while supply was kept in check with other suppliers having difficulties in migrating technology to produce high-performance and high-specification products. We expect such market conditions to persist throughout the year and demand to thus concentrate on our Company.

We launched the industry's first 10nm-class second-generation DRAM in November 2017, and secured a competitive position at least one year ahead of our competitors. At the same time, we are making various efforts to respond to changing market condition, such as increasing supply of HBM2 (High Bandwidth Memory) applied to AI and supercomputing.

Meanwhile, demand for NAND is increasing constantly thanks to growing data center and SSD needs, and the addition of NAND to new mobile devices (in terms of gigabytes of installed memory). Supply is also increasing, with suppliers rushing to increase capacity. Amid this environment, we are improving our cost competitiveness by expanding use of our cutting-edge processes to produce fourth-generation V-NAND as well as other products. We will also continue to improve our earnings by increasing supply of high value-added products, including high-density and high-performance server SSDs.

For the System LSI business, growth mostly came from mobile products, but we expect the market for smartphone and tablet to slow down this year. Even so, overall demand is projected to stay flat due to demand from newly forming markets in areas such as IoT, wearables, automotive, and health care.

For SOC products, despite a slowing market for mobile devices (including APs), demand for integrated chips—which offer modem, AP, connectivity, and other features in an all-in-one solution—is rising due to expanding markets for low-end to mid-range smartphones and tablets. We produce integrated chips that feature the AP and modem, and are striving to strengthen our competitiveness by also applying our cutting-edge processes to other areas. In sum, we are actively responding to growth in not only the premium market, but also the mass market.

Demand for high-definition, high-quality image sensors from customers seeking to differentiate their mobile products is also rising. We are leaders in CIS technology applied to mobile devices with various solutions such as dual cameras, fully utilizing our advanced technologies in areas like IOCELL and FDTI and to make our products slimmer. We are also seeking to diversify our business areas to include automotive electronics and security, to name a few.

In the foundry business, we are cooperating with a large fabless company based on our cutting-edge technology. In 2018, we began supplying a 10nm second-generation product—an industry first—and are concentrating on developing a 7nm process to secure a leading position.

## **DP (Display Panel)**

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For the OLED business, we focused on differentiating our products, improving our production yield, and expanding our customer portfolio while also working to solidify our position in the mobile market.

In 2018, we expect to face increasing uncertainties caused by intensifying competition with LTPS LCD and a possible decrease in panel demand in the first half. Accordingly, we will actively address demand from major smartphone makers and reinforce our technological edge over LTPS LCD. At the same time, we will obtain new growth drivers by strengthening our capabilities in new applications.

The LCD business improved both yield and cost efficiency, and raised its high-end portion of sales amid intensifying competition. In 2018, we expect to competition to keep rising due to capacity expansions by Chinese manufacturers. We will strive to improve our fundamentals through not only quantitative gains, but also qualitative improvements by expanding our high value-added portion of products and offering differentiated products based on our advanced technology.

## **CE (Consumer Electronics)**

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The CE division is growing steadily and increasing its shipments of flagship products—including high-definition QLED TVs, Family Hub refrigerators, Flex Wash washing machines, and Breeze-free air conditioners—based on our leading premium technologies.

Our TV business maintained the top market position for a twelfth straight year, backed by the competitive edge we have built through our strength in technology and design. We have secured an unrivalled position in the market, setting a very high bar while doing so.

In 2018, we will continue to offer superior experiences to our consumers and maintain leadership in the premium market through our QLED TVs that offer superior picture quality and ultra-large sized TVs.

In our home appliances business, we are developing innovative products to help make our customers' lives more convenient. This has allowed us to increase our position as one of the world's most loved brands and achieve a top market share for the sixth consecutive year in the refrigerator category.

In 2018, we will fortify our status as a globally leading home appliances brand via launches of products equipped with enhanced features and usability, such as Family Hub 3.0 refrigerators and QuickDrive washing machines.

Also, we will take advantage of our leading position in smart appliances to expand open connectivity across products and platforms, and also continue to invest in B2B through means such as supplying built-in air conditioners to builders.

This year, we will release IoT enabled smart home appliances and products featuring user-oriented design and customized functions that reflect the culture of the region. This will not only consolidate our status as a global home appliances brand, but also create new demand.

## **IM (IT & Mobile Communications)**

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The IM division generated solid results as it overcame the Note7 issue and unveiled flagship products equipped with reinforced product quality and innovative features.

The Galaxy S8, launched in the first half of last year, was highly regarded for its differentiated services such as Bixby and Samsung Connect and innovative design with Infinity Display. Furthermore, the release of the Galaxy Note8 in the second half was enthusiastically received for its top-notch dual camera and additional and upgraded S-Pen features in particular.

We added more flagship features to in the low-end and mid-range segment—including metal design, fast charging, dust/water resistance, and Samsung Pay—helping the Galaxy A and J series perform solidly in a highly competitive market.

In 2018, we plan to launch products featuring improved cameras and, in collaboration with Harman, upgrade the audio experience for our customers. These efforts will reinforce our leadership in premium markets.

For low-end to mid-range products, we will secure profitability by increasing our product-lineup efficiency and by improving productivity. We will also work hard to offer better usability and more convenient user experiences through accessory products such as wearables.

Together with hardware, we will continue to expand Bixby's open ecosystem. We will also work on our new business areas based on our mid- to long-term roadmap. By doing so, we will provide customer with a Multi-Device Experience within the theme of 'One Samsung,' enabling consumers to use our diverse devices easily and conveniently.

Meanwhile, we will continue to invest in new growth engines related to AI, Cloud, and 5G to name a few. Fully utilizing our industry-leading R&D competencies, we will stay at the vanguard of technological innovation and consistently offer new value to the market.

## **Harman**

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For Harman, we are focusing on generating solid results in both connected car components and professional/consumer audio markets. Through innovation, strategic mergers and acquisitions, and growth of well-recognized brands, we will continue to elevate our earnings.

Harman is a world leader in the connected car industry, and we will fully use its wide range of brands from mass-market to premium models that offer the quality that is true to the Harman name.

In the audio equipment market, we have established strong reputation among consumers and music lovers through our innovation. We will continue to launch products in promising areas, such as wireless smart speakers, to attract new customers. Along with this, we will improve results by building on our brand reputation.

In 2018, we are committed to delivering another successful year through our thorough preparation and ability to capitalize on new opportunities. We will actively respond to a paradigm shift in the IT industry toward areas such as AI, IoT, automotive vehicles, and big data, to secure the technological strength that will enable us to stay at the forefront of the fourth industrial revolution. We are steadfast in our goal to improve our performance, knowing that strong results contribute significantly to shareholder value.

Political and economic uncertainties are likely to persist both at home and abroad, while competitors' pursuit of cutting-edge technology will continue to create a challenging environment. We will strengthen our quality assurance to prevent future incidents, develop innovative technologies to remain competitive, and devote resources to research new markets and launch new products. Through these efforts, we will remain a premier global firm that offers new value to both customers and society as a whole.



### CONSOLIDATED FINANCIAL STATEMENTS OF SAMSUNG ELECTRONICS CO., LTD. AND SUBSIDIARIES

#### INDEX TO FINANCIAL STATEMENTS

※ Audited financial statements with the independent auditor's opinion are not available as of today but will be sent via a separate e-mail on February 28th.

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#### **Convenience Translation into United States Dollar Amounts**

The Company operates primarily in Korean won and its official accounting records are maintained in Korean won. The US dollar amounts provided in the financial statements represent supplementary information solely for the convenience of the reader. All Korean won amounts are expressed in U.S. dollars at the rate of ₩1131.08 to US \$1, the average exchange rate for the year ended December 31, 2017. Such presentation is not in accordance with generally accepted accounting principles, and should not be construed as a representation that the Korean won amounts shown could be readily converted, realized or settled in US dollars at this or at any other rate.

Samsung Electronics Co., Ltd. and its subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of Korean won, in thousands of US dollars)

	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	KRW	KRW	USD	USD
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	30,545,130	32,111,442	27,005,370	28,390,168
Short-term financial instruments	49,447,696	52,432,411	43,717,389	46,356,216
Short-term available-for-sale financial assets	3,191,375	3,638,460	2,821,539	3,216,813
Trade receivables	27,695,995	24,279,211	24,486,410	21,465,585
Non-trade receivables	4,108,961	3,521,197	3,632,789	3,113,139
Advance payments	1,753,673	1,439,938	1,550,446	1,273,069
Prepaid expenses	3,835,219	3,502,083	3,390,770	3,096,240
Inventories	24,983,355	18,353,503	22,088,128	16,226,585
Other current assets	1,421,060	1,315,653	1,256,378	1,163,185
Assets held-for-sale	-	835,806	-	738,948
<b>Total current assets</b>	<b>146,982,464</b>	<b>141,429,704</b>	<b>129,949,219</b>	<b>125,039,948</b>
<b>Non-current assets</b>				
Long-term available-for-sale financial assets	7,752,180	6,804,276	6,853,809	6,015,754
Held-to-maturity financial assets	106,751	-	94,380	-
Investment in associates and joint ventures	6,802,351	5,837,884	6,014,052	5,161,354
Property, plant and equipment	111,665,648	91,473,041	98,725,136	80,872,574
Intangible assets	14,760,483	5,344,020	13,049,946	4,724,722
Long-term prepaid expenses	3,434,375	3,834,831	3,036,378	3,390,427
Net defined benefit assets	825,892	557,091	730,182	492,532
Deferred income tax assets	5,061,687	5,321,450	4,475,107	4,704,767
Other non-current assets	4,360,259	1,572,027	3,854,967	1,389,850
<b>Total assets</b>	<b>301,752,090</b>	<b>262,174,324</b>	<b>266,783,176</b>	<b>231,791,928</b>

Samsung Electronics Co., Ltd. and its subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of Korean won, in thousands of US dollars)

	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	KRW	KRW	USD	USD
<b>Liabilities and Equity</b>				
<b>Current liabilities</b>				
Trade payables	9,083,907	6,485,039	8,031,207	5,733,512
Short-term borrowings	15,767,619	12,746,789	13,940,369	11,269,612
Other payables	13,899,633	11,525,910	12,288,857	10,190,216
Advances received	1,249,174	1,358,878	1,104,412	1,201,403
Withholdings	793,582	685,028	701,617	605,643
Accrued expenses	13,996,273	12,527,300	12,374,298	11,075,558
Income tax payable	7,408,348	2,837,353	6,549,822	2,508,543
Current portion of long-term liabilities	278,619	1,232,817	246,331	1,089,950
Provisions	4,294,820	4,597,417	3,797,109	4,064,640
Other current liabilities	403,139	351,176	356,421	310,478
Liabilities held-for-sale	-	356,388	-	315,088
<b>Total current liabilities</b>	<b>67,175,114</b>	<b>54,704,095</b>	<b>59,390,443</b>	<b>48,364,643</b>
<b>Non-current liabilities</b>				
Debentures	953,361	58,542	842,880	51,758
Long-term borrowings	1,814,446	1,244,238	1,604,177	1,100,048
Long-term other payables	2,043,729	3,317,054	1,806,889	2,932,653
Net defined benefit liabilities	389,922	173,656	344,735	153,532
Deferred income tax liabilities	11,710,781	7,293,514	10,353,663	6,448,296
Provisions	464,324	358,126	410,515	316,624
Other non-current liabilities	2,708,985	2,062,066	2,395,050	1,823,101
<b>Total liabilities</b>	<b>87,260,662</b>	<b>69,211,291</b>	<b>77,148,352</b>	<b>61,190,655</b>

Samsung Electronics Co., Ltd. and its subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of Korean won, in thousands of US dollars)

	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	KRW	KRW	USD	USD
<b>Equity attributable to owners of the parent</b>				
Preference shares	119,467	119,467	105,622	105,622
Ordinary shares	778,047	778,047	687,882	687,882
Share premium	4,403,893	4,403,893	3,893,542	3,893,542
Retained earnings	215,811,200	193,086,317	190,801,652	170,710,271
Other components of equity	(13,899,191)	(11,934,586)	(12,288,465)	(10,551,532)
Accumulated other comprehensive income attributable to assets held-for-sale	-	(28,810)	-	(25,471)
	207,213,416	186,424,328	183,200,233	164,820,314
<b>Non-controlling interests</b>	7,278,012	6,538,705	6,434,591	5,780,959
<b>Total equity</b>	214,491,428	192,963,033	189,634,824	170,601,273
<b>Total liabilities and equity</b>	301,752,090	262,174,324	266,783,176	231,791,928

Samsung Electronics Co., Ltd. and its subsidiaries

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**

*(In millions of Korean won, in thousands of US dollars)*

For the year ended December 31,

	2017	2016	2017	2016
	KRW	KRW	USD	USD
<b>Revenue</b>	239,575,376	201,866,745	211,811,887	178,473,168
<b>Cost of sales</b>	129,290,661	120,277,715	114,307,653	106,339,183
<b>Gross profit</b>	110,284,715	81,589,030	97,504,234	72,133,985
Selling and administrative expenses	56,639,677	52,348,358	50,075,918	46,281,904
<b>Operating profit</b>	53,645,038	29,240,672	47,428,316	25,852,081
Other non-operating income	3,010,657	3,238,261	2,661,763	2,862,991
Other non-operating expense	1,419,648	2,463,814	1,255,130	2,178,292
Share of profit of associates and joint ventures	201,442	19,501	178,098	17,241
Financial income	9,737,391	11,385,645	8,608,961	10,066,205
Financial expense	8,978,913	10,706,613	7,938,380	9,465,864
<b>Profit before income tax</b>	56,195,967	30,713,652	49,683,628	27,154,362
Income tax expense	14,009,220	7,987,560	12,385,744	7,061,911
<b>Profit for the period</b>	42,186,747	22,726,092	37,297,884	20,092,451
Profit attributable to owners of the parent	41,344,569	22,415,655	36,553,302	19,817,989
Profit attributable to non-controlling interests	842,178	310,437	744,582	274,462
Earnings per share (in Korean Won, in US dollars)				
- Basic	299,868	157,967	265.12	139.66
- Diluted	299,868	157,967	265.12	139.66

**Samsung Electronics Co., Ltd. and its subsidiaries**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(In millions of Korean won, in thousands of US dollars)*

	<b>For the year ended December 31,</b>			
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	KRW	KRW	USD	USD
<b>Profit for the period</b>	42,186,747	22,726,092	37,297,884	20,092,451
<b>Other comprehensive income (loss)</b>				
<b>Items not to be reclassified to profit or loss subsequently:</b>				
Remeasurement of net defined benefit liabilities, net of tax	414,247	963,602	366,241	851,934
Share of other comprehensive income (loss) of associates and joint ventures, net of tax	(6,347)	50,438	(5,611)	44,593
<b>Items to be reclassified to profit or loss subsequently:</b>				
Changes in value of available-for-sale financial assets, net of tax	511,207	(23,839)	451,965	(21,076)
Share of other comprehensive income (loss) of associates and joint ventures, net of tax	(49,256)	(130,337)	(43,548)	(115,233)
Foreign currency translation, net of tax	(6,334,987)	1,131,536	(5,600,849)	1,000,406
Gain (loss) on valuation of derivatives	(37,121)	-	(32,820)	-
<b>Other comprehensive income (loss) for the period, net of tax</b>	<b>(5,502,257)</b>	<b>1,991,400</b>	<b>(4,864,622)</b>	<b>1,760,624</b>
<b>Total comprehensive income for the period</b>	<b>36,684,490</b>	<b>24,717,492</b>	<b>32,433,262</b>	<b>21,853,075</b>
<b>Comprehensive income attributable to:</b>				
Owners of the parent	35,887,505	24,310,814	31,728,637	21,493,525
Non-controlling interests	796,985	406,678	704,625	359,550

Samsung Electronics Co., Ltd. and its subsidiaries

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(In millions of Korean won)

2016 KRW	Preference shares	Ordinary shares	Share premium	Retained earnings	Other components of equity	Accumulated other comprehen- sive income attributable to assets held-for-sale	Equity attributable to owners of the parent	Non- controlling interests	Total
<b>Balance as at January 1, 2016</b>	119,467	778,047	4,403,893	185,132,014	(17,580,451)	23,797	172,876,767	6,183,038	179,059,805
Profit for the period	-	-	-	22,415,655	-	-	22,415,655	310,437	22,726,092
Changes in value of available-for-sale financial assets, net of tax	-	-	-	-	(87,706)	(23,797)	(111,503)	87,664	(23,839)
Share of other comprehensive income (loss) of associates and joint ventures, net of tax	-	-	-	-	(80,146)	212	(79,934)	35	(79,899)
Foreign currency translation, net of tax	-	-	-	-	1,160,316	-	1,160,316	(28,780)	1,131,536
Remeasurement of net defined benefit liabilities, net of tax	-	-	-	-	926,280	-	926,280	37,322	963,602
Classified as held-for-sale	-	-	-	-	29,022	(29,022)	-	-	-
<b>Total comprehensive income (loss)</b>	-	-	-	22,415,655	1,947,766	(52,607)	24,310,814	406,678	24,717,492
Dividends	-	-	-	(3,061,361)	-	-	(3,061,361)	(65,161)	(3,126,522)
Capital transaction under common control	-	-	-	-	(37)	-	(37)	12,272	12,235
Changes in consolidated entities	-	-	-	-	-	-	-	1,790	1,790
Acquisition of treasury stock	-	-	-	-	(7,707,938)	-	(7,707,938)	-	(7,707,938)
Retirement of treasury stock	-	-	-	(11,399,991)	11,399,991	-	-	-	-
Others	-	-	-	-	6,083	-	6,083	88	6,171
<b>Total transactions with owners</b>	-	-	-	(14,461,352)	3,698,099	-	(10,763,253)	(51,011)	(10,814,264)
<b>Balance as at December 31, 2016</b>	119,467	778,047	4,403,893	193,086,317	(11,934,586)	(28,810)	186,424,328	6,538,705	192,963,033

**Samsung Electronics Co., Ltd. and its subsidiaries**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

*(In thousands of US dollars)*

2016 USD	Preference shares	Ordinary shares	Share premium	Retained earnings	Other components of equity	Accumulated other comprehen- sive income attributable to assets held-for-sale	Equity attributable to owners of the parent	Non- controlling interests	Total
<b>Balance as at January 1, 2016</b>	105,622	687,882	3,893,542	163,677,762	(15,543,119)	21,040	152,842,729	5,466,509	158,309,238
Profit for the period	-	-	-	19,817,989	-	-	19,817,989	274,462	20,092,451
Changes in value of available-for-sale financial assets, net of tax	-	-	-	-	(77,542)	(21,039)	(98,581)	77,505	(21,076)
Share of other comprehensive income (loss) of associates and joint ventures, net of tax	-	-	-	-	(70,858)	187	(70,671)	31	(70,640)
Foreign currency translation, net of tax	-	-	-	-	1,025,851	-	1,025,851	(25,445)	1,000,406
Remeasurement of net defined benefit liabilities, net of tax	-	-	-	-	818,937	-	818,937	32,997	851,934
Classified as held-for-sale	-	-	-	-	25,659	(25,659)	-	-	-
<b>Total comprehensive income (loss)</b>	-	-	-	19,817,989	1,722,047	(46,511)	21,493,525	359,550	21,853,075
Dividends	-	-	-	(2,706,591)	-	-	(2,706,591)	(57,610)	(2,764,201)
Capital transaction under common control	-	-	-	-	(33)	-	(33)	10,850	10,817
Changes in consolidated entities	-	-	-	-	-	-	-	1,583	1,583
Acquisition of treasury stock	-	-	-	-	(6,814,695)	-	(6,814,695)	-	(6,814,695)
Retirement of treasury stock	-	-	-	(10,078,889)	10,078,889	-	-	-	-
Others	-	-	-	-	5,379	-	5,379	77	5,456
<b>Total transactions with owners</b>	-	-	-	(12,785,480)	3,269,540	-	(9,515,940)	(45,100)	(9,561,040)
<b>Balance as at December 31, 2016</b>	105,622	687,882	3,893,542	170,710,271	(10,551,532)	(25,471)	164,820,314	5,780,959	170,601,273



Samsung Electronics Co., Ltd. and its subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In millions of Korean won)

2017 KRW	Preference shares	Ordinary shares	Share premium	Retained earnings	Other components of equity	Accumulated other comprehensive income attributable to assets held-for-sale	Equity attributable to owners of the parent	Non-controlling interests	Total
<b>Balance as at January 1, 2017</b>	119,467	778,047	4,403,893	193,086,317	(11,934,586)	(28,810)	186,424,328	6,538,705	192,963,033
Profit for the period	-	-	-	41,344,569	-	-	41,344,569	842,178	42,186,747
Changes in value of available-for-sale financial assets, net of tax	-	-	-	-	489,150	-	489,150	22,057	511,207
Share of other comprehensive income (loss) of associates and joint ventures, net of tax	-	-	-	-	(54,300)	-	(54,300)	(1,303)	(55,603)
Foreign currency translation, net of tax	-	-	-	-	(6,289,926)	28,810	(6,261,116)	(73,871)	(6,334,987)
Remeasurement of net defined benefit liabilities, net of tax	-	-	-	-	406,323	-	406,323	7,924	414,247
Gain (loss) on valuation of derivatives	-	-	-	-	(37,121)	-	(37,121)	-	(37,121)
<b>Total comprehensive income (loss)</b>	-	-	-	41,344,569	(5,485,874)	28,810	35,887,505	796,985	36,684,490
Dividends	-	-	-	(6,747,123)	-	-	(6,747,123)	(64,277)	(6,811,400)
Capital transaction under common control	-	-	-	-	(2,992)	-	(2,992)	15,114	12,122
Changes in consolidated entities	-	-	-	-	(2,699)	-	(2,699)	(9,352)	(12,051)
Acquisition of treasury stock	-	-	-	-	(8,350,424)	-	(8,350,424)	-	(8,350,424)
Retirement of treasury stock	-	-	-	(11,872,563)	11,872,563	-	-	-	-
Others	-	-	-	-	4,821	-	4,821	837	5,658
<b>Total transactions with owners</b>	-	-	-	(18,619,686)	3,521,269	-	(15,098,417)	(57,678)	(15,156,095)
<b>Balance as at December 31, 2017</b>	119,467	778,047	4,403,893	215,811,200	(13,899,191)	-	207,213,416	7,278,012	214,491,428

Samsung Electronics Co., Ltd. and its subsidiaries

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(In thousands of US dollars)

2017 USD	Preference shares	Ordinary shares	Share premium	Retained earnings	Other components of equity	Accumulated other comprehen- sive income attributable to assets held-for-sale	Equity attributable to owners of the parent	Non- controlling interests	Total
<b>Balance as at January 1, 2017</b>	105,622	687,882	3,893,542	170,710,271	(10,551,532)	(25,471)	164,820,314	5,780,959	170,601,273
Profit for the period	-	-	-	36,553,302	-	-	36,553,302	744,582	37,297,884
Changes in value of available-for-sale financial assets, net of tax	-	-	-	-	432,464	-	432,464	19,501	451,965
Share of other comprehensive income (loss) of associates and joint ventures, net of tax	-	-	-	-	(48,007)	-	(48,007)	(1,152)	(49,159)
Foreign currency translation, net of tax	-	-	-	-	(5,561,010)	25,471	(5,535,539)	(65,310)	(5,600,849)
Remeasurement of net defined benefit liabilities, net of tax	-	-	-	-	359,237	-	359,237	7,004	366,241
Gain (loss) on valuation of derivatives	-	-	-	-	(32,820)	-	(32,820)	-	(32,820)
<b>Total comprehensive income (loss)</b>	-	-	-	36,553,302	(4,850,136)	25,471	31,728,637	704,625	32,433,262
Dividends	-	-	-	(5,965,224)	-	-	(5,965,224)	(56,828)	(6,022,052)
Capital transaction under common control	-	-	-	-	(2,645)	-	(2,645)	13,362	10,717
Changes in consolidated entities	-	-	-	-	(2,386)	-	(2,386)	(8,268)	(10,654)
Acquisition of treasury stock	-	-	-	-	(7,382,726)	-	(7,382,726)	-	(7,382,726)
Retirement of treasury stock	-	-	-	(10,496,697)	10,496,697	-	-	-	-
Others	-	-	-	-	4,263	-	4,263	741	5,004
<b>Total transactions with owners</b>	-	-	-	(16,461,921)	3,113,203	-	(13,348,718)	(50,993)	(13,399,711)
<b>Balance as at December 31, 2017</b>	105,622	687,882	3,893,542	190,801,652	(12,288,465)	-	183,200,233	6,434,591	189,634,824

**Samsung Electronics Co., Ltd. and its subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(In millions of Korean won, in thousands of US dollars)*

	<b>For the year ended December 31,</b>			
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	KRW	KRW	USD	USD
<b>Cash flows from operating activities</b>				
Profit for the period	42,186,747	22,726,092	37,297,884	20,092,451
Adjustments	36,211,232	30,754,471	32,014,849	27,190,451
Changes in assets and liabilities arising from operating activities	(10,620,547)	(1,180,953)	(9,389,772)	(1,044,097)
<b>Cash generated from operations</b>	<b>67,777,432</b>	<b>52,299,610</b>	<b>59,922,961</b>	<b>46,238,805</b>
Interest received	1,581,117	1,405,085	1,397,887	1,242,255
Interest paid	(542,715)	(443,838)	(479,822)	(392,403)
Dividends received	173,305	256,851	153,221	227,086
Income tax paid	(6,827,098)	(6,132,064)	(6,035,931)	(5,421,443)
<b>Net cash inflow from operating activities</b>	<b>62,162,041</b>	<b>47,385,644</b>	<b>54,958,316</b>	<b>41,894,300</b>
<b>Cash flows from investing activities</b>				
Net decrease (increase) in short-term financial instruments	387,627	(6,780,610)	342,706	(5,994,831)
Disposal of short-term available-for-sale financial assets	499,856	3,010,003	441,930	2,661,185
Acquisition of short-term available-for-sale financial assets	-	(2,129,551)	-	(1,882,765)
Disposal of long-term financial instruments	1,750,221	789,862	1,547,394	698,328
Acquisition of long-term financial instruments	(1,079,355)	(1,741,547)	(954,273)	(1,539,726)
Disposal of long-term available-for-sale financial assets	191,826	2,010,356	169,596	1,777,383
Acquisition of long-term available-for-sale financial assets	(358,497)	(1,498,148)	(316,952)	(1,324,533)
Acquisition of held-to-maturity financial assets	(106,751)	-	(94,380)	-
Disposal of investment in associates and joint ventures	355,926	2,280,203	314,679	2,015,959
Acquisition of investment in associates and joint ventures	(25,293)	(84,306)	(22,362)	(74,536)
Disposal of property, plant and equipment	308,354	270,874	272,620	239,483
Acquisition of property, plant and equipment	(42,792,234)	(24,142,973)	(37,833,203)	(21,345,135)
Disposal of intangible assets	733	6,944	648	6139
Acquisition of intangible assets	(983,740)	(1,047,668)	(869,738)	(926,258)
Cash outflow from business combinations	(8,754,268)	(622,050)	(7,739,769)	(549,963)
Cash inflow from business transfers	1,248,834	-	1,104,111	-
Others	(28,455)	19,936	(25,156)	17,627
<b>Net cash outflow from investing activities</b>	<b>(49,385,216)</b>	<b>(29,658,675)</b>	<b>(43,662,149)</b>	<b>(26,221,643)</b>

Samsung Electronics Co., Ltd. and its subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of Korean won, in thousands of US dollars)

	For the year ended December 31,			
	2017	2016	2017	2016
	KRW	KRW	USD	USD
<b>Cash flows from financing activities</b>				
Net increase in short-term borrowings	2,730,676	1,351,037	2,414,228	1,194,470
Acquisition of treasury stock	(8,350,424)	(7,707,938)	(7,382,726)	(6,814,695)
Proceeds from long-term borrowings and debentures	998,311	1,041,743	882,620	921,019
Repayment of long-term borrowings and debentures	(1,140,803)	(252,846)	(1,008,600)	(223,545)
Dividends paid	(6,804,297)	(3,114,742)	(6,015,773)	(2,753,786)
Net increase in non-controlling interests	5,670	13,232	5,016	11,700
<b>Net cash outflow from financing activities</b>	<b>(12,560,867)</b>	<b>(8,669,514)</b>	<b>(11,105,235)</b>	<b>(7,664,837)</b>
Effect of exchange rate changes on cash and cash equivalents	(1,782,270)	417,243	(1,575,730)	368,891
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,566,312)</b>	<b>9,474,698</b>	<b>(1,384,798)</b>	<b>8,376,711</b>
<b>Cash and cash equivalents</b>				
<b>Beginning of the period</b>	<b>32,111,442</b>	<b>22,636,744</b>	<b>28,390,168</b>	<b>20,013,457</b>
<b>End of the period</b>	<b>30,545,130</b>	<b>32,111,442</b>	<b>27,005,370</b>	<b>28,390,168</b>

**Samsung Electronics Co., Ltd.**

**SEPARATE STATEMENTS OF APPROPRIATION OF RETAINED EARNINGS**

**For the year ended December 31**

<i>(In millions of Korean won)</i>	<b>2017</b>		<b>2016</b>	
	KRW		KRW	
<b>Retained earnings before appropriations</b>				
Unappropriated retained earnings carried over from prior year	₩	31	₩	30
Interim dividends:		(2,896,772)		(141,540)
In 2017 - ₩21,000 (dividend rate: 420%)				
In 2016 - ₩1,000 (dividend rate: 20%)				
Retired treasury stock		(11,872,563)		(11,399,991)
Net income		28,800,837		11,579,749
<b>Total</b>		<b>14,031,533</b>		<b>38,248</b>
<b>Transfers from other reserves</b>				
Reserve for business rationalization		-		3,812,135
<b>Total</b>		<b>-</b>		<b>3,812,135</b>
<b>Appropriations of retained earnings</b>				
Reserve for business rationalization		3,000,000		-
Cash dividends:		2,929,530		3,850,352
In 2017:				
Ordinary shares - ₩21,500 (dividend rate: 430%)				
Preference shares - ₩21,550 (dividend rate: 431%)				
In 2016:				
Ordinary shares - ₩27,500 (dividend rate: 550%)				
Preference shares - ₩27,550 (dividend rate: 551%)				
Reserve for research and human resources development		8,000,000		-
Reserve for capital expenditure		101,973		-
<b>Total</b>		<b>14,031,503</b>		<b>3,850,352</b>
<b>Unappropriated retained earnings to be carried forward</b>	<b>₩</b>	<b>30</b>	<b>₩</b>	<b>31</b>

**Samsung Electronics Co., Ltd.**

**SEPARATE STATEMENTS OF APPROPRIATION OF RETAINED EARNINGS**

**For the year ended December 31**

<i>(In thousands of US dollars)</i>	<b>2017</b>	<b>2016</b>
	USD	USD
<b>Retained earnings before appropriations</b>		
Unappropriated retained earnings carried over from prior year	\$ 27	\$ 27
Interim dividends:	(2,561,076)	(125,137)
In 2017 - ₩21,000 (dividend rate: 420%)		
In 2016 - ₩1,000 (dividend rate: 20%)		
Retired treasury stock	(10,496,696)	(10,078,889)
Net income	25,463,216	10,237,815
<b>Total</b>	<b>12,405,471</b>	<b>33,816</b>
<b>Transfers from other reserves</b>		
Reserve for business rationalization	-	3,370,361
<b>Total</b>	<b>-</b>	<b>3,370,361</b>
<b>Appropriations of retained earnings</b>		
Reserve for business rationalization	2,652,341	-
Cash dividends:	2,590,038	3,404,149
In 2017:		
Ordinary shares - ₩21,500 (dividend rate: 430%)		
Preference shares - ₩21,550 (dividend rate: 431%)		
In 2016:		
Ordinary shares - ₩27,500 (dividend rate: 550%)		
Preference shares - ₩27,550 (dividend rate: 551%)		
Reserve for research and human resources development	7,072,910	-
Reserve for capital expenditure	90,156	-
<b>Total</b>	<b>12,405,445</b>	<b>3,404,149</b>
<b>Unappropriated retained earnings to be carried forward</b>	<b>\$ 27</b>	<b>\$ 27</b>