

**Earnings Release Q2 2014**

**Samsung Electronics**

**July 2014**

# Disclaimer

The financial information in this document are consolidated earnings results based on K-IFRS.

This document is provided for the convenience of investors only, before the external audit on our 2Q 2014 financial results is completed. The audit outcomes may cause some parts of this document to change.

This document contains "forward-looking statements" - that is, statements related to future, not past, events. In this context, "forward-looking statements" often address our expected future business and financial performance, and often contain words such as "expects", "anticipates", "intends", "plans", "believes", "seeks" or "will ". "Forward-looking statements" by their nature address matters that are, to different degrees, uncertain.

For us, particular uncertainties which could adversely or positively affect our future results include:

- The behavior of financial markets including fluctuations in exchange rates, interest rates and commodity prices
- Strategic actions including dispositions and acquisitions
- Unanticipated dramatic developments in our major businesses including CE (Consumer Electronics), IM (IT & Mobile communications), DS (Device Solutions)
- Numerous other matters at the national and international levels which could affect our future results

These uncertainties may cause our actual results to be materially different from those expressed in this document.

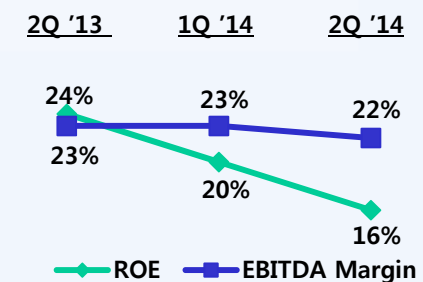
# Income Statement

(Unit: KRW Trillion)

	2Q '14	% of sales	1Q '14	% of sales	2Q '13
<b>Sales</b>	<b>52.35</b>	<b>100.0%</b>	<b>53.68</b>	<b>100.0%</b>	<b>57.46</b>
Cost of Sales	31.67	60.5%	32.05	59.7%	34.34
<b>Gross Profit</b>	<b>20.68</b>	<b>39.5%</b>	<b>21.63</b>	<b>40.3%</b>	<b>23.12</b>
SG&A expenses	13.49	25.8%	13.14	24.5%	13.59
- R&D expenses	3.70	7.1%	3.69	6.9%	3.54
<b>Operating Profit</b>	<b>7.19</b>	<b>13.7%</b>	<b>8.49</b>	<b>15.8%</b>	<b>9.53</b>
Other non-operating income/expense	0.25	0.5%	0.96	1.8%	0.09
Equity method gain/loss	0.06	0.1%	0.03	0.1%	0.21
Finance income/expense	0.28	0.5%	0.17	0.3%	△0.003
<b>Profit Before Income Tax</b>	<b>7.79</b>	<b>14.9%</b>	<b>9.65</b>	<b>18.0%</b>	<b>9.83</b>
Income tax	1.53	2.9%	2.07	3.9%	2.05
<b>Net profit</b>	<b>6.25</b>	<b>11.9%</b>	<b>7.57</b>	<b>14.1%</b>	<b>7.77</b>

## Key Profitability Indicators

	2Q '14	1Q '14	2Q '13
<b>ROE</b>	<b>16%</b>	<b>20%</b>	<b>24%</b>
Profitability (Net profit/Sales)	0.12	0.14	0.14
Asset turnover (Sales/Asset)	0.95	0.98	1.19
Leverage (Asset/Equity)	1.42	1.44	1.48
<b>EBITDA Margin</b>	<b>22%</b>	<b>23%</b>	<b>23%</b>



# Segment Sales & Operating Profit

## Sales

(Unit: KRW Trillion)		<u>2Q '14</u>	<u>QoQ</u>	<u>1Q '14</u>	<u>2Q '13</u>
<b>Total</b>		<b>52.35</b>	<b>2% ↓</b>	<b>53.68</b>	<b>57.46</b>
CE		13.00	15% ↑	11.32	12.78
	VD	8.06	9% ↑	7.39	7.94
IM		28.45	12% ↓	32.44	35.54
	Mobile	27.51	12% ↓	31.36	34.96
DS		16.23	4% ↑	15.56	17.05
	Semiconductor	9.78	4% ↑	9.39	8.68
	- Memory	6.92	10% ↑	6.29	5.70
	DP	6.33	4% ↑	6.10	8.18

## Operating Profit

(Unit: KRW Trillion)		<u>2Q '14</u>	<u>QoQ</u>	<u>1Q '14</u>	<u>2Q '13</u>
<b>Total</b>		<b>7.19</b>	<b>15% ↓</b>	<b>8.49</b>	<b>9.53</b>
CE		0.77	300% ↑	0.19	0.43
IM		4.42	31% ↓	6.43	6.28
DS		2.09	12% ↑	1.87	2.92
	Semiconductor	1.86	5% ↓	1.95	1.76
	DP	0.22	-	△0.08	1.12

Note) CE (Consumer Electronics), IM (IT & Mobile communications), DS (Device Solutions), DP (Display Panel)

※ Sales for each business unit includes intersegment sales.

※ 2013 sales and operating profit of each business stated above reflect the organizational change in 2014.

# 2Q Results

## Semiconductor

### [Memory]

- Market : Solid demand for main applications continued despite low seasonality
  - DRAM : Stable market supply and demand condition continued; Stable PC/server and strong game console/consumer demand continued while supply growth was limited
  - NAND : Solid demand for PC/datacenter and brand SSD; Demand growth continued for high-density card and the Chinese mobile market
- Samsung : Improved profitability by addressing demand growth and continuing the expansion of process migration
  - DRAM : Improved profitability by expanding 20nm-class migration and addressing demands from application segments with flexible product mix
  - NAND : Maintained profitability through expansion of process migration and 3bit products, while increased sales of SSD/solution products and high-density card

### [System LSI]

- Sales down slightly QoQ due to weak customer demand for mobile AP
  - LSI products sales increased including high-pixel CIS

## D P

### [LCD]

- Market: TV and notebook/monitor panel demand increased
  - TV Panel : Demand increased driven by the World Cup and UHD TV growth (QoQ 8%↑, YoY 2%↑)
    - ASP increased due to improved supply and demand (QoQ 4%↑)
  - IT Panel : Overall demand declined due to decrease in tablet demand despite window XP replacement demand increase in notebook and monitor (QoQ 1%↓)
- Samsung : Earnings improved QoQ led by higher TV panel shipments
  - TV panel : Shipment increased by mid single-digit %, QoQ low-10 %, YoY
    - Shipments up for premium products such as curved, 60"+/UHD
  - IT panel : Shipment declined due to lower tablet market demand

### [OLED]

- Earnings slightly increased driven by new high-end smartphone product shipment growth
  - New high-end FHD panel sales increased and started mass production of 5.1" QHD panel

# 2Q Results

## I M

### [Handset]

- Market : Amid low seasonality, Smartphone demand remained flat for QoQ while declined slightly QoQ for Tablet
  - Developed market: Demand remained solid in US but weakened in EU due to high channel inventory level
  - Emerging market : In China, 3G demand declined in anticipation of 4G LTE expansion
- Samsung : Earnings declined;  
Lower smartphone & tablet shipments due to higher inventory level; and increased costs related to ramp-up sales of S5 and inventory reduction
  - Smartphone : Mid to low-end shipments down due to weak demand in EU and lower 3G demand coupled with intensified price competition in China
  - Tablet : Shipments down due to weak overall demand, including declined demand for replacements

### [Network]

- Earnings down QoQ due to decrease in LTE investments of domestic and overseas market under low seasonality

## C E

### [TV]

- Market : Amid low seasonality, FPTV market grew slightly QoQ led by UHD TV growth and the World Cup demand (QoQ 1.5% ↑)
  - Latin America : Strong demand increase driven by the World Cup impact (QoQ 15% ↑)
  - UHD TV : Strong demand increase in developed and Chinese market, following a successful new products rollout (QoQ 88% ↑)
- Samsung : Earnings up QoQ while outperforming market growth led by successful new model launches and increasing sales thanks to the world-cup demand
  - Increased premium product sales in developed markets
    - Premium LCD TV(7000 series-) sales up QoQ 63% ↑, YoY 31% ↑
    - 60" + ultra large-size LCD TV sales up QoQ 42% ↑, YoY 86% ↑
  - UHD TV : Increased shipments largely outperformed the market by meeting the increased market demand for UHD TV and improving mass market product line ups in China

### [ Digital Appliances ]

- Overall demand increased in developed market, while Samsung earnings improved QoQ led by strong sales of premium products and peak season for air conditioners

# Outlook [2<sup>nd</sup> half]

## Semiconductor

- **Memory** : Expect tight supply and demand market condition to continue under strong seasonality
  - DRAM: Expect strong demand from major applications amid limited supply growth; Demand to increase driven by new mobile product launch and Chinese mobile market growth
  - NAND: Expect strong mobile and Enterprise/PC SSD demand growth, while the overall demand expansion to be driven by increased contents for major applications, including card
- **System LSI** : Expect weak customer demand for high-end mobile AP to continue, amidst new 20nm mobile AP product launch
  - ※ 14nm product development is on track to begin mass production by year-end; well in-line with our plan to secure customer base

## DP

- **LCD** : Expect stable market condition led by strong seasonality; Trend toward increased demand for large size and UHD TV
  - UHD TV : Expect shipment increase in mass market products and premium products, including curved and 60"+
- **OLED** : Focus on enforcing competitiveness and securing long term growth
  - High-End : Start mass production of new flexible and ultra-high resolution products
  - Mid-End : Increase sales by diversifying product line-up

## IM

- **Handset** : Expect smartphone and tablet demand to grow under strong seasonality
  - Smartphone
    - High-end : Expect growth led by TD-LTE expansion in China and lower inventory level in Europe
    - Mid/Low-end : Expect demand to grow led by emerging markets
      - ※ Competition to intensify with new product launches
- **Tablet** : Expect demand to increase under strong seasonality, new model & price competition to intensify
  - Expect substantial growth in 4Q demand driven by year-end seasonal promotion

## CE

- **TV** : Expect demand to grow YoY driven by strong seasonality and solid emerging markets growth momentum
  - Expect UHD TV competition to intensify in developed/China market
    - Global UHD TV demand (QoQ): 3Q 3.6M (103%↑) → 4Q 6.1M (70%↑)
- **Digital Appliances** : Expect demand to increase YoY amid economic recovery in North America and emerging markets

## [Appendix 1] Statement of Financial Position (K-IFRS)

(Unit : KRW Billion)

	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013
<b>Current Assets</b>	<b>112,800</b>	<b>116,246</b>	<b>104,791</b>
- Cash *	60,663	61,478	46,986
- A/R	24,433	25,236	27,108
- Inventories	18,276	19,649	21,562
- Other Current Assets	9,428	9,883	9,135
<b>Non Current Assets</b>	<b>111,923</b>	<b>109,047</b>	<b>98,971</b>
- Investments	17,549	14,677	15,725
- PP&E	75,594	76,519	70,398
- Intangible Assets	4,220	4,120	4,062
- Other Non Current Assets	14,561	13,730	8,786
<b>Total Assets</b>	<b>224,723</b>	<b>225,293</b>	<b>203,762</b>
<b>Liabilities</b>	<b>65,210</b>	<b>69,731</b>	<b>65,382</b>
- Debts	13,972	12,479	13,825
- Trade Accounts and N/P	8,162	10,263	10,527
- Other Accounts and N/P & Accrued Expenses	17,044	19,988	18,043
- Income Tax Payables	4,305	5,117	3,066
- Unearned Revenue & Other Advances	2,294	2,830	2,884
- Other Liabilities	19,433	19,054	17,037
<b>Shareholders' Equity</b>	<b>159,513</b>	<b>155,562</b>	<b>138,380</b>
- Capital Stock	898	898	898
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>224,723</b>	<b>225,293</b>	<b>203,762</b>

※ Cash \* = Cash and Cash equivalents + Short-term financial instruments + Short-term available-for-sale securities

	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013
<b>Current ratio *</b>	<b>226%</b>	<b>214%</b>	<b>197%</b>
<b>Liability/Equity</b>	<b>41%</b>	<b>45%</b>	<b>47%</b>
<b>Debt/Equity</b>	<b>9%</b>	<b>8%</b>	<b>10%</b>
<b>Net debt/Equity</b>	<b>-29%</b>	<b>-31%</b>	<b>-24%</b>

※ Current ratio \* = Current assets/Current liabilities



## [Appendix 2] Cash Flow Statement (K-IFRS)

(Unit : KRW Trillion)

	2Q '14	1Q '14	2Q '13
<b>Cash (Beginning of period)*</b>	<b>61.48</b>	<b>54.50</b>	<b>43.56</b>
Cash flows from operating activities	8.91	12.21	8.60
Net profit	6.25	7.57	7.77
Depreciation	4.20	4.00	3.81
Cash flows from investing activities	-8.84	-6.54	-6.00
Increase in tangible assets	-4.68	-5.94	-5.47
Cash flows from financing activities	-0.16	1.26	0.42
Increase in debts	1.91	1.25	1.33
Increase in cash	-0.82	6.98	3.43
<b>Cash (End of period)*</b>	<b>60.66</b>	<b>61.48</b>	<b>46.99</b>

※ Cash \* = Cash and Cash equivalents + Short-term financial instruments + Short-term available-for-sale securities

### Current State of Net Cash (Net Cash =Cash\* - Debts)

(Unit : KRW Trillion)

	Jun 30, 2014	Mar 31, 2014	Jun 30, 2013
<b>Net Cash</b>	<b>46.69</b>	<b>49.00</b>	<b>33.16</b>

※ Cash \* = Cash and Cash equivalents + Short-term financial instruments + Short-term available-for-sale securities