

**Earnings Release Q1 2018**

# **Samsung Electronics**

**April 2018**

# Disclaimer

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**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 Q1 2018 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.**

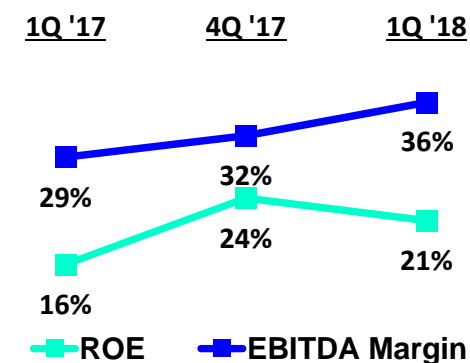
# Income Statement

(Unit: KRW Trillion)

	1Q '18	% of sales	1Q '17	% of sales	4Q '17
<b>Sales</b>	<b>60.56</b>	<b>100.0%</b>	<b>50.55</b>	<b>100.0%</b>	<b>65.98</b>
Cost of Sales	31.91	52.7%	28.16	55.7%	35.73
<b>Gross Profit</b>	<b>28.65</b>	<b>47.3%</b>	<b>22.39</b>	<b>44.3%</b>	<b>30.25</b>
SG&A expenses	13.01	21.5%	12.49	24.7%	15.10
- R&D expenses	4.22	7.0%	3.77	7.5%	4.43
<b>Operating Profit</b>	<b>15.64</b>	<b>25.8%</b>	<b>9.90</b>	<b>19.6%</b>	<b>15.15</b>
Other non-operating income/expense	0.13	0.2%	0.04	0.1%	1.33
Equity method gain/loss	0.06	0.1%	0.02	0.04%	0.08
Finance income/expense	0.34	0.6%	0.21	0.4%	0.14
<b>Profit Before Income Tax</b>	<b>16.18</b>	<b>26.7%</b>	<b>10.16</b>	<b>20.1%</b>	<b>16.70</b>
Income tax	4.49	7.4%	2.48	4.9%	4.45
<b>Net profit</b>	<b>11.69</b>	<b>19.3%</b>	<b>7.68</b>	<b>15.2%</b>	<b>12.26</b>

## Key Profitability Indicators

	1Q '18	1Q '17	4Q '17
<b>ROE</b>	<b>21%</b>	<b>16%</b>	<b>24%</b>
Profitability (Net profit/Sales)	0.19	0.15	0.19
Asset turnover (Sales/Asset)	0.79	0.77	0.94
Leverage (Asset/Equity)	1.40	1.38	1.38
<b>EBITDA Margin</b>	<b>36%</b>	<b>29%</b>	<b>32%</b>



# Segment Sales & Operating Profit

## Sales

(Unit: KRW Trillion)

	1Q '18	1Q '17	4Q '17	YoY	QoQ
<b>Total</b>	<b>60.56</b>	<b>50.55</b>	<b>65.98</b>	<b>20% ↑</b>	<b>8% ↓</b>
<b>CE</b>	<b>9.74</b>	<b>10.22</b>	<b>12.57</b>	<b>5% ↓</b>	<b>23% ↓</b>
<b>VD</b>	<b>5.84</b>	<b>6.46</b>	<b>8.36</b>	<b>10% ↓</b>	<b>30% ↓</b>
<b>IM</b>	<b>28.45</b>	<b>23.50</b>	<b>25.47</b>	<b>21% ↑</b>	<b>12% ↑</b>
<b>Mobile</b>	<b>27.66</b>	<b>22.47</b>	<b>25.03</b>	<b>23% ↑</b>	<b>11% ↑</b>
<b>DS</b>	<b>28.35</b>	<b>22.85</b>	<b>32.05</b>	<b>24% ↑</b>	<b>12% ↓</b>
<b>Semiconductor</b>	<b>20.78</b>	<b>15.66</b>	<b>21.11</b>	<b>33% ↑</b>	<b>2% ↓</b>
- Memory	17.33	12.12	17.94	43% ↑	3% ↓
<b>DP</b>	<b>7.54</b>	<b>7.29</b>	<b>11.18</b>	<b>3% ↑</b>	<b>33% ↓</b>
<b>Harman</b>	<b>1.94</b>	<b>0.54</b>	<b>2.32</b>	<b>261% ↑</b>	<b>16% ↓</b>

## Operating Profit

(Unit: KRW Trillion)

	1Q '18	1Q '17	4Q '17	YoY	QoQ
<b>Total</b>	<b>15.64</b>	<b>9.90</b>	<b>15.15</b>	<b>5.74</b>	<b>0.50</b>
<b>CE</b>	<b>0.28</b>	<b>0.41</b>	<b>0.55</b>	<b>△0.14</b>	<b>△0.27</b>
<b>IM</b>	<b>3.77</b>	<b>2.07</b>	<b>2.42</b>	<b>1.70</b>	<b>1.35</b>
<b>DS</b>	<b>11.76</b>	<b>7.59</b>	<b>12.20</b>	<b>4.17</b>	<b>△0.44</b>
<b>Semiconductor</b>	<b>11.55</b>	<b>6.31</b>	<b>10.90</b>	<b>5.24</b>	<b>0.65</b>
<b>DP</b>	<b>0.41</b>	<b>1.30</b>	<b>1.41</b>	<b>△0.90</b>	<b>△1.00</b>
<b>Harman</b>	<b>△0.04</b>	<b>0.02</b>	<b>0.06</b>	<b>△0.06</b>	<b>△0.10</b>

※ CE : Consumer Electronics (excluding health&medical equipment business), IM : IT & Mobile communications, DS : Device Solutions, DP : Display Panel

※ Sales and operating profit of each business stated above reflect the organizational structure as of 2018, and the sales of business units include intersegment sales.

※ Harman's sales and operating profit figures are based on Samsung Electronics' fiscal year, and acquisition related expenses are reflected.

# Q1 Results and Outlook by Business Unit

## Semiconductor

### [Q1 Results]

- Memory : Market conditions remained favorable due to strong demand for server/graphic memory
  - DRAM : Sales of high-density server DRAM (32GB and higher) increased
  - NAND : Despite strong demand for server SSDs, shipments declined due to a weak smartphone market
- S.LSI : Earnings grew amid rising demand for premium smartphone components
- Foundry : Earnings grew as orders increased for HPC (high-performance computing) chips

### [Q2 Outlook]

- Memory: DRAM demand to stay solid mainly for server/mobile; NAND demand for high-capacity storage to strengthen as prices soften
- S.LSI : Demand for smartphone components to slow
- Foundry : Earnings growth to continue via increased supply of 10nm products and HPC chips

### [H2 Outlook]

- Memory : Expect strong demand due to an increase in content per box across all applications
  - DRAM : Expand sales of differentiated products—e.g., high-density server DRAM/High Bandwidth Memory
  - NAND : Expand 64-layer V-NAND process migration and start mass production of 5th generation V-NAND as scheduled
- S.LSI : Increase supply of differentiated APs, image sensors, etc.
- Foundry : Diversify consumer base and solidify technological leadership (via 7nm EUV, etc.)

## D P

### [Q1 Results]

- OLED: Earnings declined due to weak demand and rising competition between Rigid OLED and LTPS LCD
- LCD : Earnings stayed flat QoQ thanks to cost reduction efforts and product-mix improvements amid a decline in sales and ASPs caused by weak seasonality.

### [Q2 Outlook]

- OLED : Secure profitability amid weak demand by reducing costs and improving yield
- LCD : Focus on reducing costs and improving product mix amid persisting oversupply due to competitors increasing production capacity

### [H2 Outlook]

- OLED : Actively respond to demand for flexible products; increase market share by expanding consumer base and improving cost competitiveness via cutting-edge technologies and products; reinforce competencies in new applications; offer differentiated technology from LTPS LCD
- LCD : Deliver differentiated products and technologies especially for large-size and high-definition TVs and expand premium product portion of sales; secure profitability by strengthening strategic partnerships with major business partners

# Q1 Results and Outlook by Business Unit

## I M

### [Q1 Results]

- Mobile: Earnings grew significantly due to increased sales of flagship products with the early launch of the S9 and long-tail sales of existing models such as the S8
- N/W : Earnings improved due to investments in LTE by overseas customers and on offerings of new solutions

### [Q2 Outlook]

- Mobile: Profitability in the mobile business is expected to decline quarter-over-quarter due to stagnant sales of flagship models amid weak demand and an increase in marketing expenses to address the situation.
- N/W: Enhance business fundamentals by pursuing the supply of LTE base stations to advanced markets such as North America

### [H2 Outlook]

- Mobile: Secure solid earnings by launching new models in various price ranges, streamlining our low-end and mid-range lineup, and enhancing services such as Bixby 2.0
- N/W: Expand supply of next-generation network solutions for 5G commercialization

## C E

### [Q1 Results]

- TV : Earnings fell slightly YoY as we reshaped lineups by removing some mid-range and below products, despite an increased sales portion of premium products such as ultra-large-size/QLED TVs
- DA : Revenue grew YoY driven by strong sales of washing machines and system air conditioners, but earnings decreased slightly due to rising raw material prices and operating costs of new factory in North America

### [Q2 Outlook]

- TV : Earnings to grow on rising sales of new models and promotions for global sporting events  
Differentiate QLED TVs with innovations such as One Invisible Connection (which includes the power cord) and Ambient Mode
- DA : Improve earnings by increasing sales of premium products, including breeze-free air conditioners, QuickDrive washing machines, Family Hub refrigerators, etc.

### [H2 Outlook]

- TV : Expand premium lineups for products such as ultra-large-size QLED TVs (75" and up) and 8K TVs; solidify leadership in premium market by launching innovative products like Micro LED TVs
- DA : Improve earnings by expanding presence in premium markets —e.g., the builder market in North America and built-in home appliance market in Europe.

## [Appendix 1] Financial Position

(Unit : KRW Billion)

	Mar 31, 2018	Dec 31, 2017	Mar 31, 2017
<b>Assets</b>	<b>312,473.1</b>	<b>301,752.1</b>	<b>264,217.4</b>
- Cash *	83,082.0	83,604.4	73,449.7
- A/R	35,370.7	27,696.0	22,340.7
- Inventories	26,470.9	24,983.4	21,857.6
- Investments	16,304.4	16,644.2	13,933.6
- PP&E	114,412.3	111,665.6	95,322.4
- Intangible Assets	14,805.4	14,760.5	14,775.9
- Other Assets	22,027.4	22,398.0	22,537.5
<b>Total Assets</b>	<b>312,473.1</b>	<b>301,752.1</b>	<b>264,217.4</b>
<b>Liabilities</b>	<b>89,213.2</b>	<b>87,260.7</b>	<b>74,399.4</b>
- Debts	12,861.2	18,814.0	13,249.3
- Trade Accounts and N/P	9,301.1	9,083.9	9,569.5
- Other Accounts and N/P & Accrued Expenses	30,325.3	27,895.9	25,287.1
- Income Tax Payables	10,542.6	7,408.3	3,422.2
- Unearned Revenue & Other Advances	1,956.9	2,042.8	1,653.3
- Other Liabilities	24,226.1	22,015.8	21,218.0
<b>Shareholders' Equity</b>	<b>223,259.9</b>	<b>214,491.4</b>	<b>189,818.0</b>
- Capital Stock	897.5	897.5	897.5
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>312,473.1</b>	<b>301,752.1</b>	<b>264,217.4</b>

\* Cash = Cash and Cash equivalents, Short-term financial instruments, Short-term available-for-sale securities, Long-term time deposits, etc.

	Mar 31, 2018	Dec 31, 2017	Mar 31, 2017
Current ratio *	227%	219%	227%
Liability/Equity	40%	41%	39%
Debt/Equity	6%	9%	7%
Net debt/Equity	△31%	△30%	△32%

\* Current ratio = Current assets/Current liabilities

## [Appendix 2] Cash Flow

(Unit : KRW Trillion)

	1Q '18	4Q '17	1Q '17
<b>Cash (Beginning of period) *</b>	<b>83.60</b>	<b>76.08</b>	<b>88.23</b>
Cash flows from operating activities	15.62	21.69	10.60
Net profit	11.69	12.26	7.68
Depreciation	5.92	5.71	4.77
Cash flows from investing activities	△9.84	△8.96	△17.46
Purchases of PP&E	△9.82	△10.44	△8.90
Cash flows from financing activities	△6.93	△2.12	△5.19
Increase in debts	△6.06	0.93	△3.14
Acquisition of treasury stock	△0.88	△2.03	△2.05
Payment of dividends	-	△1.00	-
Increase in cash	△0.52	7.52	△14.78
<b>Cash (End of period) *</b>	<b>83.08</b>	<b>83.60</b>	<b>73.45</b>

\* Cash = Cash and Cash equivalents, Short-term financial instruments, Short-term available-for-sale securities, Long-term time deposits, etc.

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

(Unit : KRW Trillion)

	Mar 31, 2018	Dec 31, 2017	Mar 31, 2017
<b>Net Cash</b>	<b>70.22</b>	<b>64.79</b>	<b>60.20</b>

\* Cash = Cash and Cash equivalents, Short-term financial instruments, Short-term available-for-sale securities, Long-term time deposits, etc.