

**Earnings Release Q2 2018**

# **Samsung Electronics**

**July 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 Q2 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.**

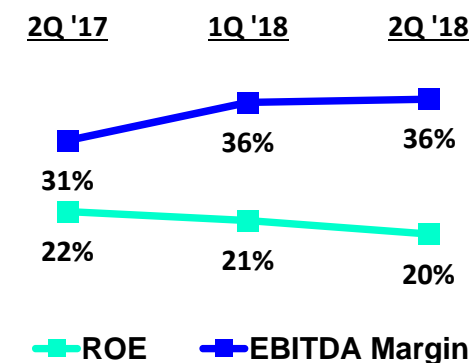
# Income Statement

(Unit: KRW Trillion)

	2Q '18	% of sales	2Q '17	% of sales	1Q '18
<b>Sales</b>	<b>58.48</b>	<b>100.0%</b>	<b>61.00</b>	<b>100.0%</b>	<b>60.56</b>
Cost of Sales	31.27	53.5%	32.40	53.1%	31.91
<b>Gross Profit</b>	<b>27.21</b>	<b>46.5%</b>	<b>28.60</b>	<b>46.9%</b>	<b>28.65</b>
SG&A expenses	12.34	21.1%	14.53	23.8%	13.01
- R&D expenses	4.37	7.5%	3.97	6.5%	4.22
<b>Operating Profit</b>	<b>14.87</b>	<b>25.4%</b>	<b>14.07</b>	<b>23.1%</b>	<b>15.64</b>
Other non-operating income/expense	0.15	0.2%	0.12	0.2%	0.13
Equity method gain/loss	0.11	0.2%	0.02	0.04%	0.06
Finance income/expense	0.29	0.5%	0.20	0.3%	0.34
<b>Profit Before Income Tax</b>	<b>15.41</b>	<b>26.3%</b>	<b>14.41</b>	<b>23.6%</b>	<b>16.18</b>
Income tax	4.36	7.5%	3.36	5.5%	4.49
<b>Net profit</b>	<b>11.04</b>	<b>18.9%</b>	<b>11.05</b>	<b>18.1%</b>	<b>11.69</b>

## Key Profitability Indicators

	2Q '18	2Q '17	1Q '18
<b>ROE</b>	<b>20%</b>	<b>22%</b>	<b>21%</b>
Profitability (Net profit/Sales)	0.19	0.18	0.19
Asset turnover (Sales/Asset)	0.75	0.90	0.79
Leverage (Asset/Equity)	1.39	1.37	1.40
<b>EBITDA Margin</b>	<b>36%</b>	<b>31%</b>	<b>36%</b>



# Segment Sales & Operating Profit

## Sales

(Unit: KRW Trillion)

		2Q '18	2Q '17	1Q '18	YoY	QoQ
<b>Total</b>		<b>58.48</b>	<b>61.00</b>	<b>60.56</b>	<b>4% ↓</b>	<b>3% ↓</b>
<b>CE</b>		<b>10.40</b>	<b>10.80</b>	<b>9.74</b>	<b>4% ↓</b>	<b>7% ↑</b>
	<b>VD</b>	<b>5.94</b>	<b>6.18</b>	<b>5.84</b>	<b>4% ↓</b>	<b>2% ↑</b>
<b>IM</b>		<b>24.00</b>	<b>30.01</b>	<b>28.45</b>	<b>20% ↓</b>	<b>16% ↓</b>
	<b>Mobile</b>	<b>22.67</b>	<b>28.92</b>	<b>27.66</b>	<b>22% ↓</b>	<b>18% ↓</b>
<b>DS</b>		<b>27.70</b>	<b>25.25</b>	<b>28.35</b>	<b>10% ↑</b>	<b>2% ↓</b>
	<b>Semiconductor</b>	<b>21.99</b>	<b>17.58</b>	<b>20.78</b>	<b>25% ↑</b>	<b>6% ↑</b>
	- Memory	18.50	13.94	17.33	33% ↑	7% ↑
	<b>DP</b>	<b>5.67</b>	<b>7.71</b>	<b>7.54</b>	<b>27% ↓</b>	<b>25% ↓</b>
<b>Harman</b>		<b>2.13</b>	<b>2.15</b>	<b>1.94</b>	<b>1% ↓</b>	<b>10% ↑</b>

## Operating Profit

(Unit: KRW Trillion)

		2Q '18	2Q '17	1Q '18	YoY	QoQ
<b>Total</b>		<b>14.87</b>	<b>14.07</b>	<b>15.64</b>	<b>0.80</b>	<b>△0.77</b>
<b>CE</b>		<b>0.51</b>	<b>0.35</b>	<b>0.28</b>	<b>0.16</b>	<b>0.24</b>
<b>IM</b>		<b>2.67</b>	<b>4.06</b>	<b>3.77</b>	<b>△1.39</b>	<b>△1.10</b>
<b>DS</b>		<b>11.69</b>	<b>9.69</b>	<b>11.76</b>	<b>2.00</b>	<b>△0.07</b>
	<b>Semiconductor</b>	<b>11.61</b>	<b>8.03</b>	<b>11.55</b>	<b>3.58</b>	<b>0.06</b>
	<b>DP</b>	<b>0.14</b>	<b>1.71</b>	<b>0.41</b>	<b>△1.58</b>	<b>△0.27</b>
<b>Harman</b>		<b>0.04</b>	<b>0.01</b>	<b>△0.04</b>	<b>0.04</b>	<b>0.08</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.

# Q2 Results and Outlook by Business Unit

## Semiconductor

### [Q2 Results]

- Memory: Demand for high-density products remained strong amid solid demand from data centers
  - DRAM: Shipments, mainly for high-density servers, increased (64GB and higher); qualification continued for 1nm chips for major customers
  - NAND: Responded actively to growing demand for 128GB mobile storage
- S.LSI: Demand for components was soft due to weak seasonality
- Foundry: Chinese demand for high-performance computing chips increased alongside overall demand for mobile APs and image sensors

### [H2 Outlook]

- Memory: Market conditions to stay solid on the back of strong demand led by increasing content per box
  - DRAM: Expand sales of differentiated products—e.g., high-density server DRAM/High Bandwidth Memory; focus on 10nm-class process migration
  - NAND: Cater to growing demand for high-density solution products such as 8TB server SSDs; strengthen technological leadership by expanding mass production of 5th generation V-NAND
- S.LSI: Actively respond to growing demand for image sensors and DDIs
- Foundry: Solidify technological leadership through the risk production of 7nm EUV  
Achieve full-year sales of over 10 billion dollars

## D P

### [Q2 Results]

- OLED: Despite an improved utilization rate for rigid panels, earnings decreased due to slow demand for flexible panels
- LCD: Earnings weakened due to declines in sales volume and ASPs of TV panels

### [H2 Outlook]

- OLED: Increased shipments of flexible panels are expected boost earnings, whereas rigid panels are likely to face risks as competition intensifies with LTPS LCD panels  
  
Increase penetration of OLED panels for Smartphones by offering differentiated technology and enhancing cost competitiveness; reinforce product competency by enhancing technology and cost competitiveness of to-be-launched new product lineups including foldable panels
- LCD: Earnings to remain weak despite increasing demand mainly for large-screen and UHD products due to increased supply from competitors  
  
Focus on securing profitability by strengthening product differentiation especially in the high-end segment, which includes ultra-large-size and 8K TVs; solidify strategic partnerships with major customers

# Q2 Results and Outlook by Business Unit

## I M

### [Q2 Results]

- Mobile: Amid weak seasonality, demand for smartphones and tablets grew slightly QoQ  
Earnings decreased due to increased marketing expenses amid declining revenue attributable to lower-than-expected sales of the Galaxy S9
- N/W: Earnings improved due to increased investments in LTE by major overseas customers

### [H2 Outlook]

- Mobile: Business environment to remain tough despite strong seasonality due to growing competition to offer higher specifications and lower prices  
Strive to secure profitability by expanding sales of new models in each segment
  - High-end: conduct early launch of the new Note model that boasts superior performance at a reasonable price
  - Low-end to mid-range: actively respond to market competition by adding new features and enhancing cost effectiveness
- N/W: Supply next-generation network solutions for 5G to major customers

## C E

### [Q2 Results]

- TV: Earnings improved significantly YoY and QoQ on the back of growing sales of premium products such as UHD/ultra-large-sized TVs and strong sales of new QLED models
- DA: Despite strong sales of premium products such as Family Hub refrigerators and air purifier "CUBE", weak demand for air conditioners limited QoQ earnings growth

### [H2 Outlook]

- TV: Keep earnings growing by increasing sales of new QLED lineup under strong year-end seasonal demand
  - Focus on solidifying leadership in the premium market by launching innovative products such as 8K/ Micro LED TVs and expanding marketing for QLED/ultra-large-sized TVs (75" and up)
- DA: Focus on profitability by expanding sales of new premium products, such as Chef Collection or large-capacity dryers, and built-in home appliances for both consumers and builders

## [Appendix 1] Financial Position

(Unit : KRW Billion)

	Jun 30, 2018	Mar 31, 2018	Jun 30, 2017
<b>Assets</b>	<b>318,688.4</b>	<b>312,473.1</b>	<b>277,589.4</b>
- Cash *	85,697.0	83,082.0	70,549.9
- A/R	35,013.1	35,370.7	27,585.9
- Inventories	27,358.8	26,470.9	23,020.9
- Investments	16,692.9	16,304.4	14,921.4
- PP&E	116,576.1	114,412.3	103,695.2
- Intangible Assets	14,999.5	14,805.4	15,221.3
- Other Assets	22,351.0	22,027.4	22,594.8
<b>Total Assets</b>	<b>318,688.4</b>	<b>312,473.1</b>	<b>277,589.4</b>
<b>Liabilities</b>	<b>85,563.5</b>	<b>89,213.2</b>	<b>76,883.7</b>
- Debts	16,107.0	12,861.2	16,711.8
- Trade Accounts and N/P	8,410.3	9,301.1	9,075.8
- Other Accounts and N/P & Accrued Expenses	26,479.0	30,325.3	22,821.4
- Income Tax Payables	7,063.1	10,542.6	3,472.2
- Unearned Revenue & Other Advances	1,748.0	1,956.9	2,023.7
- Other Liabilities	25,756.1	24,226.1	22,778.8
<b>Shareholders' Equity</b>	<b>233,124.9</b>	<b>223,259.9</b>	<b>200,705.7</b>
- Capital Stock	897.5	897.5	897.5
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>318,688.4</b>	<b>312,473.1</b>	<b>277,589.4</b>

\* Cash = Cash and Cash equivalents, Short-term financial instruments, Short-term financial assets at amortized cost, Long-term time deposits, etc.

	Jun 30, 2018	Mar 31, 2018	Jun 30, 2017
Current ratio *	239%	227%	226%
Liability/Equity	37%	40%	38%
Debt/Equity	7%	6%	8%
Net debt/Equity	△30%	△31%	△27%

\* Current ratio = Current assets/Current liabilities

## [Appendix 2] Cash Flow

(Unit : KRW Trillion)

	2Q '18	1Q '18	2Q '17
<b>Cash (Beginning of period) *</b>	<b>83.08</b>	<b>83.60</b>	<b>73.45</b>
Cash flows from operating activities	13.44	15.62	12.43
Net profit	11.04	11.69	11.05
Depreciation	6.17	5.92	4.85
Cash flows from investing activities	△9.01	△9.84	△12.63
Purchases of PP&E	△8.28	△9.82	△12.24
Cash flows from financing activities	△2.39	△6.93	△3.98
Increase in debts	2.95	△6.06	3.00
Acquisition of treasury stock	-	△0.88	△2.17
Payment of dividends	△5.34	-	△4.82
Increase in cash	2.62	△0.52	△2.90
<b>Cash (End of period) *</b>	<b>85.70</b>	<b>83.08</b>	<b>70.55</b>

\* Cash = Cash and Cash equivalents, Short-term financial instruments, Short-term financial assets at amortized cost, Long-term time deposits, etc.

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

(Unit : KRW Trillion)

	Jun 30, 2018	Mar 31, 2018	Jun 30, 2017
<b>Net Cash</b>	<b>69.59</b>	<b>70.22</b>	<b>53.84</b>

\* Cash = Cash and Cash equivalents, Short-term financial instruments, Short-term financial assets at amortized cost, Long-term time deposits, etc.