

Earnings Release Q3 2018

Samsung Electronics

October 2018

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 Q3 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.

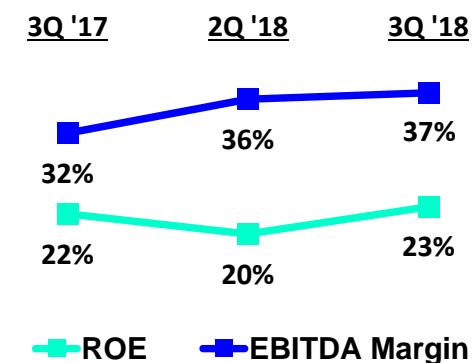
Income Statement

(Unit: KRW Trillion)

	3Q '18	% of sales	3Q '17	% of sales	2Q '18
Sales	65.46	100.0%	62.05	100.0%	58.48
Cost of Sales	35.19	53.8%	33.00	53.2%	31.27
Gross Profit	30.27	46.2%	29.04	46.8%	27.21
SG&A expenses	12.69	19.4%	14.51	23.4%	12.34
- R&D expenses	4.52	6.9%	4.18	6.7%	4.37
Operating Profit	17.57	26.8%	14.53	23.4%	14.87
Other non-operating income/expense	0.02	0.04%	0.10	0.2%	0.15
Equity method gain/loss	0.12	0.2%	0.08	0.1%	0.11
Finance income/expense	0.25	0.4%	0.20	0.3%	0.29
Profit Before Income Tax	17.97	27.5%	14.91	24.0%	15.41
Income tax	4.82	7.4%	3.72	6.0%	4.36
Net profit	13.15	20.1%	11.19	18.0%	11.04

Key Profitability Indicators

	3Q '18	3Q '17	2Q '18
ROE	23%	22%	20%
Profitability (Net profit/Sales)	0.20	0.18	0.19
Asset turnover (Sales/Asset)	0.82	0.89	0.75
Leverage (Asset/Equity)	1.40	1.38	1.39
EBITDA Margin	37%	32%	36%



Segment Sales & Operating Profit

Sales

(Unit: KRW Trillion)

	3Q '18	3Q '17	2Q '18	YoY	QoQ
Total	65.46	62.05	58.48	5% ↑	12% ↑
CE	10.18	11.01	10.40	8% ↓	2% ↓
VD	5.98	6.52	5.94	8% ↓	1% ↑
IM	24.91	27.69	24.00	10% ↓	4% ↑
Mobile	23.99	27.20	22.67	12% ↓	6% ↑
DS	34.76	28.02	27.70	24% ↑	26% ↑
Semiconductor	24.77	19.91	21.99	24% ↑	13% ↑
- Memory	21.05	16.30	18.50	29% ↑	14% ↑
DP	10.09	8.28	5.67	22% ↑	78% ↑
Harman	2.22	2.09	2.13	6% ↑	4% ↑

Operating Profit

(Unit: KRW Trillion)

	3Q '18	3Q '17	2Q '18	YoY	QoQ
Total	17.57	14.53	14.87	3.04	2.71
CE	0.56	0.49	0.51	0.07	0.05
IM	2.22	3.29	2.67	△1.07	△0.45
DS	14.56	10.85	11.69	3.72	2.87
Semiconductor	13.65	9.96	11.61	3.69	2.04
DP	1.10	0.97	0.14	0.13	0.97
Harman	0.08	△0.03	0.04	0.11	0.04

※ 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.

Q3 Results and Outlook by Business Unit

Semiconductor

[Q3 Results]

- Memory: Strong performance led mainly by server and mobile products
 - DRAM: Improved yields in advanced processes increase cost reductions
 - NAND: Rising demand for high-density SSDs/mobile storage addressed
- S.LSI: Rising demand for image sensors and OLED DDIs boost earnings
- Foundry: Solid demand for mobile APs/image sensors and initial production of 7nm EUV process

[Q4 Outlook]

- Memory: Softening prices due to seasonality despite solid demand
 - DRAM: Manage product mix flexibly considering market conditions
 - NAND: Focus on premium market for All-Flash-Array solutions, high-density UFS, etc.
- S.LSI/Foundry: Slow demand for mobile APs/image sensors due to seasonality

[2019 Outlook]

- Memory: Demand for high-density memory chips to stay solid as the cloud market grows, mid-to-low segment smartphones adopt higher specs, etc.
 - DRAM: Expand sales of differentiated items—*e.g.*, high-density server/mobile/HBM2 products
 - NAND: Strengthen cost competitiveness by expanding supply of 5th generation V-NAND
- S.LSI: Increase supply of image sensors to address accelerating adoption of multiple cameras
- Foundry: To establish a bridgehead to stable growth by increasing customer base by at least 30%

D P

[Q3 Results]

- OLED: Earnings improved significantly QoQ thanks to growing sales led primarily by increasing demand for flexible panels
- LCD: Earnings improved slightly QoQ on the back of increasing sales of ultra-large, high-resolution panels

[Q4 Outlook]

- OLED: Solid earnings on the back of demand from major customers
 - Raise penetration rate of OLED panels by focusing on delivering differentiated technologies for flexible products and improving cost competitiveness of rigid products
- LCD: Improve profitability by expanding portion of ultra-large, high-resolution products and improving overall yield despite unfavorable supply and demand conditions amid weak seasonality

[2019 Outlook]

- OLED: Maintain sales growth and improve profitability by solidifying customer base focused on flexible panels; expanding new model lineup based on differentiated technology; strengthening business connection with major smartphone companies; and improving cost competitiveness
- LCD: Demand to grow for ultra-large-sized, UHD TVs but market uncertainty to increase due to capacity expansions in the industry
 - Focus on expanding sales of premium TVs based on differentiated features such as Quantum Dot, 8K, ultra-large screens

Q3 Results and Outlook by Business Unit

I M

[Q3 Results]

- Mobile: Smartphone shipments stayed flat QoQ despite solid Note 9-led flagship sales as we refreshed the mid-range-and-below lineup
Profit fell QoQ due to an increase in advertising expenses and negative currency impacts
- N/W: Earnings fell on negative currency effects and due to declining sales as LTE investments by major customers concentrated in H1

[Q4 Outlook]

- Mobile: Smartphone shipments to rise led by our mid-range and below lineup that includes an A-series model with multi-camera modules
Earnings to decrease due to increased marketing expenses for peak season
- N/W: Supply 5G equipment to advanced markets (the US and Korea)

[2019 Outlook]

- Mobile: Expand flagship sales by offering new designs in and enhanced lineup while addressing competition in the mid-range-and-below market by bolstering key features such as cameras, sensors, etc.
Strengthen business competitiveness in the mid- to long-term by leading innovation with the launch of foldable and 5G devices and enhancing Bixby-based AI and IoT services
- N/W: Proactively address growth of the global 5G market via 5G commercialization in the US and Korea

C E

[Q3 Results]

- TV: Earnings improved YoY and QoQ on the back of growing sales of premium products such as QLED and ultra-large-sized TVs
- DA: Earnings slid slightly YoY despite increased sales of premium products—*e.g.*, Chef Collection refrigerators and Flexwash washers—due to economic slowdowns in emerging countries

[Q4 Outlook]

- TV: Maintain earnings growth momentum by addressing strong year-end seasonal demand and increasing sales of new premium models such as QLED 8K TVs
- DA: Focus on expanding sales of premium products by responding to regional peak seasons and strengthening online sales

[2019 Outlook]

- TV: Grow earnings and solidify leadership in the premium TV market by expanding sales of QLED TVs and bolstering the premium TV lineup via new ultra-large-sized TVs and newly released 8K models
- DA: Improve profitability by expanding sales of premium products
Focus on new growth drivers by strengthening our B2B business, including that for built-in appliances and system air conditioners

[Appendix 1] Financial Position

(Unit : KRW Billion)

	Sep 30, 2018	Jun 30, 2018	Sep 30, 2017
Assets	337,195.8	318,688.4	296,578.6
- Cash *	97,781.5	85,697.0	76,080.7
- A/R	41,940.1	35,013.1	30,351.2
- Inventories	28,242.8	27,358.8	27,032.5
- Investments	17,145.9	16,692.9	15,402.3
- PP&E	115,003.1	116,576.1	109,006.1
- Intangible Assets	14,800.1	14,999.5	15,376.2
- Other Assets	22,282.3	22,351.0	23,329.6
Total Assets	337,195.8	318,688.4	296,578.6
Liabilities	95,092.6	85,563.5	85,887.3
- Debts	21,685.4	16,107.0	18,562.1
- Trade Accounts and N/P	10,209.2	8,410.3	11,367.4
- Other Accounts and N/P & Accrued Expenses	25,735.8	26,479.0	23,739.5
- Income Tax Payables	8,822.6	7,063.1	5,446.1
- Unearned Revenue & Other Advances	1,763.7	1,748.0	2,040.6
- Other Liabilities	26,875.9	25,756.1	24,731.6
Shareholders' Equity	242,103.2	233,124.9	210,691.3
- Capital Stock	897.5	897.5	897.5
Total Liabilities & Shareholder's Equity	337,195.8	318,688.4	296,578.6

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

	Sep 30, 2018	Jun 30, 2018	Sep 30, 2017
Current ratio *	236%	239%	220%
Liability/Equity	39%	37%	41%
Debt/Equity	9%	7%	9%
Net debt/Equity	△31%	△30%	△27%

* Current ratio = Current assets/Current liabilities

[Appendix 2] Cash Flow

(Unit : KRW Trillion)

	3Q '18	2Q '18	3Q '17
Cash (Beginning of period) *	85.70	83.08	70.55
Cash flows from operating activities	15.55	13.44	17.45
Net profit	13.15	11.04	11.19
Depreciation	6.48	6.17	5.27
Cash flows from investing activities	△6.12	△9.01	△11.52
Purchases of PP&E	△5.61	△8.28	△11.21
Cash flows from financing activities	3.63	△2.39	△1.27
Increase in debts	6.04	2.95	1.80
Acquisition of treasury stock	-	-	△2.10
Payment of dividends	△2.41	△5.34	△0.98
Increase in cash	12.08	2.62	5.53
Cash (End of period) *	97.78	85.70	76.08

* 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)

	Sep 30, 2018	Jun 30, 2018	Sep 30, 2017
Net Cash	76.10	69.59	57.52

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