Letter to Shareholders

Fiscal 2018 was another record year for Samsung Electronics: our financial performance set new highs for a second straight year despite numerous challenges in the second half, such as uncertainties related to global trade issues and changing monetary policies as well as intense competition in markets for our major products. Your trust and support, alongside the dedication and hard work of our employees, are the bedrock of our success, and for that, we extend our gratitude. I would now like to share some highlights of 2018.

Record-high earnings

In the Memory Business, overall demand from major applications continued to rise, despite difficult business conditions in the fourth quarter. We bolstered our technological competitiveness with our advanced processes for 2nd generation 10nm DRAM and 5th generation V-NAND; and improved our earnings significantly by increasing the sales portion of premium products such as high-density server DRAM and SSD chips.

The Foundry Business added to its technological leadership by completing the development of the 7nm EUV process. The System LSI business, meanwhile, created more paths to growth by developing the industry’s first 5G modems and extending use of APs and image sensors to include automotive technology and IoT applications.

For displays, the OLED business reinforced leadership by diversifying its customer base and offering differentiated new products like full-screen smartphone displays and fingerprint-on-display panels. Amid unfavorable conditions, the LCD business focused on securing profitability by improving its product mix via the industry’s first mass production of 8K TV panels.

In the Mobile Communications Business, we bolstered our role as a leader in the premium segment with the launches of the differentiated Galaxy S9 and Note 9, which offer differentiated features such as dual lens, smart S-pen, etc. Amid intense competition in the mass market and backed by a lineup that includes the Galaxy A series, we generated strong earnings by improving cost competitiveness and delivering cutting-edge features, including multi-cameras. With an eye toward future growth, we expanded and improved our AI- and IoT-based ecosystem.

The TV business expanded the premium market by addressing a trend towards bigger and higher-resolution products with the introduction of our ultra-large, ultra-HD QLED 8K TVs. We remained atop global market share—a position we have held since 2006—by delivering products that feature differentiated designs such as the Frame TV and offer improved usability and convenience through Bixby-based voice recognition functionalities. In Digital Appliances, we strengthened competitiveness by enhancing innovative products, such as Family Hub 3.0 refrigerators, Cube air purifiers, and Air Dressers, with advanced smart features.
In the automotive business, we created synergies between Harman’s technology and our IT know-how in 5G, OLED, AI, and voice recognition. Our co-developed Digital Cockpit, a highly-recognized vision of next-generation mobility life, is just an initial step in our shared quest to push beyond current boundaries in infotainment and telematics.

Overall, our efforts produced a second straight year of record-high financial results, with revenue increasing slightly to KRW 244 trillion and operating profit rising 10% to KRW 59 trillion.

**Improvements in Corporate governance**

Alongside our solid financial results, we also made significant advancements in corporate governance and transparency.

Last March, we separated the roles of Chief Executive Officer and Chairman of the Board to clarify the responsibilities and increase independence of the Board. This enables our CEOs to focus solely on their business areas and allows the Chairman to strengthen executive supervision and encourage Independent Directors to participate more actively in the decision making process.

Also in March, a non-Korean citizen and a female legal expert were elected as Independent Directors. We believe the added diversity and inclusivity will provide a more balanced perspective and thus boost the Board’s effectiveness.

We established the Governance Committee in 2017 to oversee and improve on our activities related to shareholder value and corporate social responsibility; and in 2018, we formed the Independent Director Recommendation Committee entirely with Independent Directors to better reflect their opinions and thus strengthen the independence of the Board. Knowing full well that our advancements in corporate governance also contribute to securing sustainable growth, we will continue to seek ways to improve.

**Shareholder return policy**

Our shareholder return policy for 2018–2020 offers significant increases in dividends and predictability. We will distribute dividends of KRW 9.6 trillion in each of the covered years as a part of our promise to return 50% of total free cash flow of the full three-year period.

Following this policy and upon approval at the Annual General Meeting, the annual dividend for 2018 is KRW 9.6 trillion won, up 65% from KRW 5.8 trillion in 2017. Dividend per share on a full-year basis is KRW 1,416 for common stock and KRW 1,417 for preferred stock.

In December 2018, we completed our plan to cancel all treasury stock by retiring the shares that remained from the first cancellation in May 2017. These transactions reduced issued common stock by approximately 7% and issued preferred stock by around 9% compared to levels at end-2017. Overall, the decreases will help boost value per share, and, in turn, contribute to shareholder value in the long term.

In May 2018, we conducted a 50:1 stock split to increase liquidity and expand our investor base. The split provided more people with an opportunity to own Samsung Electronics shares and benefit from our dividends.
Looking ahead

In 2019, we expect business conditions to remain difficult as global trade conflicts persist and changes in monetary policies of developed nations may lead to financial uncertainties in emerging economies.

In our mainstay businesses, we will continue to find efficiencies and enhance management’s agility throughout the entire business process, building on our leadership in these already strong areas. At the same time, we will keep developing and realizing our potential in new business areas by leveraging our innovative technologies and next-generation products.

Our industry is changing rapidly: rising competition in areas related to software, content, services, ecosystems, etc., leave little doubt that preparations for the future are no longer optional, but rather both a means of survival and a path to success. We plan to maintain our position at the forefront of change and will set cornerstones for sustained growth through a corporate culture that encourages openness and welcomes constructive mistakes alongside ambitious investments in our pursuit of new technology. For our shareholders, we remain dedicated to executing our shareholder policy faithfully and exploring ways to boost shareholder value that extend beyond financial performance.

Lastly, we will provide a safe working environment for all our employees, including those of our suppliers, by integrating our Environment, Health, and Safety (EHS) system into all aspects of our business. As a part of these efforts, we have conducted evaluations of our corporate safety culture, educational training sessions for our employees, and risk evaluations on all manufacturing sites to identify potential risks. We will improve safety management further by building a comprehensive accident management process while striving to create an accident-free work environment through internalizing a culture of safety.

Just as we stepped up ten years ago amid the global financial crisis, we will not shy away from the challenges that await us. In this, our 50th anniversary year, we promise to use our unparalleled technological advantages to fortify our leadership role and provide the foundation for even greater prosperity over the next 50 years.

I wish you health, happiness, and success in the coming year.

Thank you and respectfully yours,

Ki-Nam Kim,                                        Sang-Hoon Lee,
Chief Executive Officer,                           Chairman of Board,
Samsung Electronics Co., Ltd                      Samsung Electronics Co., Ltd