

Earnings Release Q3 2017

Samsung Electronics

October 2017

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 2017 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.

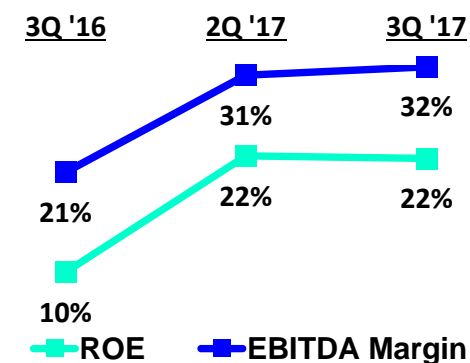
Income Statement

(Unit: KRW Trillion)

	3Q '17	% of sales	3Q '16	% of sales	2Q '17
Sales	62.05	100.0%	47.82	100.0%	61.00
Cost of Sales	33.00	53.2%	29.41	61.5%	32.40
Gross Profit	29.04	46.8%	18.40	38.5%	28.60
SG&A expenses	14.51	23.4%	13.20	27.6%	14.53
- R&D expenses	4.18	6.7%	3.51	7.3%	3.97
Operating Profit	14.53	23.4%	5.20	10.9%	14.07
Other non-operating income/expense	0.10	0.2%	0.54	1.1%	0.12
Equity method gain/loss	0.08	0.1%	0.01	0.01%	0.02
Finance income/expense	0.20	0.3%	0.23	0.5%	0.20
Profit Before Income Tax	14.91	24.0%	5.97	12.5%	14.41
Income tax	3.72	6.0%	1.43	3.0%	3.36
Net profit	11.19	18.0%	4.54	9.5%	11.05

Key Profitability Indicators

	3Q '17	3Q '16	2Q '17
ROE	22%	10%	22%
Profitability (Net profit/Sales)	0.18	0.09	0.18
Asset turnover (Sales/Asset)	0.89	0.79	0.90
Leverage (Asset/Equity)	1.38	1.36	1.37
EBITDA Margin	32%	21%	31%



Segment Sales & Operating Profit

Sales

(Unit: KRW Trillion)

	3Q '17	3Q '16	2Q '17	YoY	QoQ
Total	62.05	47.82	61.00	30% ↑	2% ↑
CE	11.13	10.78	10.92	3% ↑	2% ↑
VD	6.52	6.60	6.18	1% ↓	6% ↑
IM	27.69	22.54	30.01	23% ↑	8% ↓
Mobile	27.20	22.09	28.92	23% ↑	6% ↓
DS	28.02	20.29	25.25	38% ↑	11% ↑
Semiconductor	19.91	13.15	17.58	51% ↑	13% ↑
- Memory	16.30	9.86	13.94	65% ↑	17% ↑
DP	8.28	7.06	7.71	17% ↑	7% ↑
Harman	2.09		2.15		3% ↓

Operating Profit

(Unit: KRW Trillion)

	3Q '17	3Q '16	2Q '17	YoY	QoQ
Total	14.53	5.20	14.07	9.33	0.47
CE	0.44	0.79	0.32	△0.34	0.12
IM	3.29	0.10	4.06	3.19	△0.77
DS	10.85	4.40	9.69	6.45	1.16
Semiconductor	9.96	3.37	8.03	6.59	1.93
DP	0.97	1.02	1.71	△0.05	△0.74
Harman	△0.03		0.01		△0.04

※ CE : Consumer Electronics (excluding printing 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 2017, 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 : Demand remained strong from data centers and new smartphones
 - DRAM : Sales of high-density server DRAM and LPDDR4x increased
 - NAND : Focused on supplying high-value added products such as NVMe SSD for data center
- S.LSI : Improved earnings by increasing sales of high-value added LSI products such as DDIs/image sensors
- Foundry : Improved earnings by stabilizing yield of 10nm products and by increasing 10nm supply

[Q4 Outlook]

- Memory: Tight supply/demand conditions will continue due to increased demand mainly from server/mobile
 - DRAM : Focus on product mix considering each application's demand and expand 1Xnm migration
 - NAND : Increase supply of profitable/differentiated products such as server SSD
- S.LSI : Continue to increase supply of premium OLED DDIs
- Foundry : Diversify applications to 10nm-process based cryptocurrency, etc.

['18 Outlook]

- Memory : Expect strong demand, driven by the trends towards high-density products in all applications
 - Flexible investment/supply in accordance with the market conditions; Expand supply of 10nm-class DRAMs; Strengthen product/tech leadership through timely mass production of 5th generation V-NAND
- S.LSI : Earnings will continue to grow, driven by solid demand for AP/image sensors/OLED DDIs
- Foundry : Develop cutting-edge processes below EUV-based 7nm

D P

[Q3 Results]

- OLED: Revenue increased from strong flexible panels sales, due to customer's new product release, but cost for new capacity ramp-up increased, and Rigid panels faced intensified competition with LTPS LCDs
- LCD : ASP declined due to inventory adjustment of major customers

[Q4 Outlook]

- OLED : Expect earnings to improve, driven by increased shipments of Flexible products and release of new Rigid products
- LCD : Imbalance in Supply-demand is expected to continue due to expanded panel supply in the industry under weak seasonality; Ensure stable profitability by increasing the share of high-ends (UHD/ultra large-sized) sales

['18 Outlook]

- OLED : Expect OLED panels to become mainstream in the mobile market; Expect flexible panels to strengthen its position especially in the H/E segment; Focus on improving earnings by ensuring a timely supply of products and securing differentiated technologies
- LCD : Strengthen strategic partnership with customers; Focus on improving profitability by increasing shipment of high value-added and design differentiated products such as UHD/large-sized/QD/Frameless

Q3 Results and Outlook by Business Unit

I M

[Q3 Results]

- Mobile: Smartphone shipment increased driven by the launch of Note 8 and strong sales of new J series, but earnings declined QoQ due to increased share of mid to low-end smartphones
- N/W : Revenue/OP decreased due to decline in LTE investment from major overseas customers

[Q4 Outlook]

- Mobile
 - Market: Expect smartphone/tablet demand to increase due to strong seasonality, but competitors' new products release will intensify competition in the premium segment
 - SEC: Focus on achieving solid earnings by increasing shipment of flagship products such as Note 8, and improving product mix
- N/W: Introduce next-generation network solutions to advanced markets

['18 Outlook]

- Mobile
 - Market: Expect solid smartphone demand growth with increased high-end replacement demand, etc., but difficult business environment is likely to continue due to intensifying competition and higher material costs
 - SEC: Improve profitability through differentiation of flagship products and more efficient product line-ups; Focus on strengthening competitiveness of service/SW such as Bixby/IoT
- N/W: Expand supply of next-generation network solutions for 5G to major advanced markets

C E

[Q3 Results]

- TV : Earnings improved QoQ, led by increased sales of premiums such as QLED TV, but profitability declined YoY due to increased panel ASPs
- DA : Revenue increased driven by strong sales of air conditioners/washing machines and increased shipment of premium products, but earnings decreased due to increased investment in B2B business

[Q4 Outlook]

- TV : Focus on responding to year-end peak-season, mainly with premium products such as UHD/ultra-large sized TV;
 - Improve premium product sales and earnings by increasing marketing activities for QLED TV
 - Reinforce B2B Business including Digital Signage and Cinema LED
- DA : Focus on sales of newly-launched premium products such as washing machine w/ QuickDrive™ and POWERstick PRO vacuum cleaner

['18 Outlook]

- TV : Maintain leadership in the premium market by increasing QLED TV sales; Focus on improving profitability by increasing share of high-ends such as UHD/ultra-large panels in product line-ups
- DA : Improve earnings by expanding premium product sales, expanding the B2B business, and increasing online sales

[Appendix 1] Financial Position

(Unit : KRW Billion)

	Sep 30, 2017	Jun 30, 2017	Sep 30, 2016
Assets	296,578.6	277,589.4	244,471.5
- Cash *	76,080.7	70,549.9	83,068.1
- A/R	30,351.2	27,585.9	21,693.2
- Inventories	27,032.5	23,020.9	18,378.2
- Investments	15,402.3	14,921.4	12,445.3
- PP&E	109,006.1	103,695.2	83,873.8
- Intangible Assets	15,376.2	15,221.3	5,088.2
- Other Assets	23,329.6	22,594.8	19,924.7
Total Assets	296,578.6	277,589.4	244,471.5
Liabilities	85,887.3	76,883.7	64,935.1
- Debts	18,562.1	16,711.8	12,957.3
- Trade Accounts and N/P	11,367.4	9,075.8	7,857.3
- Other Accounts and N/P & Accrued Expenses	23,739.5	22,821.4	18,941.9
- Income Tax Payables	5,446.1	3,472.2	1,782.1
- Unearned Revenue & Other Advances	2,040.6	2,023.7	2,326.0
- Other Liabilities	24,731.6	22,778.8	21,070.5
Shareholders' Equity	210,691.3	200,705.7	179,536.4
- Capital Stock	897.5	897.5	897.5
Total Liabilities & Shareholder's Equity	296,578.6	277,589.4	244,471.5

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

	Sep 30, 2017	Jun 30, 2017	Sep 30, 2016
Current ratio *	220%	226%	262%
Liability/Equity	41%	38%	36%
Debt/Equity	9%	8%	7%
Net debt/Equity	△27%	△27%	△39%

* Current ratio = Current assets/Current liabilities

[Appendix 2] Cash Flow

(Unit : KRW Trillion)

	3Q '17	2Q '17	3Q '16
Cash (Beginning of period) *	70.55	73.45	77.14
Cash flows from operating activities	17.45	12.43	14.34
Net profit	11.19	11.05	4.54
Depreciation	5.27	4.85	4.71
Cash flows from investing activities	△11.52	△12.63	△5.68
Purchases of PP&E	△11.21	△12.24	△5.40
Cash flows from financing activities	△1.27	△3.98	△1.49
Increase in debts	1.80	3.00	1.01
Acquisition of treasury stock	△2.10	△2.17	△2.36
Payment of dividends	△0.98	△4.82	△0.15
Increase in cash	5.53	△2.90	5.93
Cash (End of period) *	76.08	70.55	83.07

* 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)

	Sep 30, 2017	Jun 30, 2017	Sep 30, 2016
Net Cash	57.52	53.84	70.11

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