

Earnings Release Q4 2018

Samsung Electronics

January 2019

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 Q4 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.

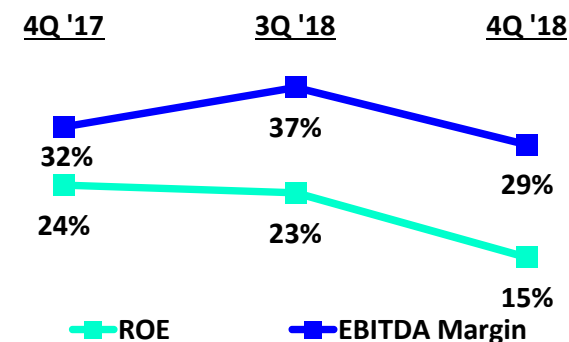
Income Statement

(Unit: KRW Trillion)

	4Q '18	% of sales	4Q '17	% of sales	3Q '18	FY '18	% of sales	FY '17	% of sales
Sales	59.27	100.0%	65.98	100.0%	65.46	243.77	100.0%	239.58	100.0%
Cost of Sales	34.02	57.4%	35.73	54.2%	35.19	132.39	54.3%	129.29	54.0%
Gross Profit	25.25	42.6%	30.25	45.8%	30.27	111.38	45.7%	110.28	46.0%
SG&A expenses	14.45	24.4%	15.10	22.9%	12.69	52.49	21.5%	56.64	23.6%
- R&D expenses	5.24	8.8%	4.43	6.7%	4.52	18.35	7.5%	16.36	6.8%
Operating Profit	10.80	18.2%	15.15	23.0%	17.57	58.89	24.2%	53.65	22.4%
Other non-operating income/expense	0.05	0.1%	1.33	2.0%	0.02	0.34	0.1%	1.59	0.7%
Equity method gain/loss	0.25	0.4%	0.08	0.1%	0.12	0.54	0.2%	0.20	0.1%
Finance income/expense	0.51	0.9%	0.14	0.2%	0.25	1.39	0.6%	0.76	0.3%
Profit Before Income Tax	11.61	19.6%	16.70	25.3%	17.97	61.16	25.1%	56.20	23.5%
Income tax	3.15	5.3%	4.45	6.7%	4.82	16.82	6.9%	14.01	5.8%
Net profit	8.46	14.3%	12.26	18.6%	13.15	44.34	18.2%	42.19	17.6%

Key Profitability Indicators

	4Q '18	4Q '17	3Q '18	FY '18	FY '17
ROE	15%	24%	23%	19%	21%
Profitability (Net profit/Sales)	0.14	0.19	0.20	0.18	0.18
Asset turnover (Sales/Asset)	0.74	0.94	0.82	0.76	0.85
Leverage (Asset/Equity)	1.39	1.38	1.40	1.39	1.38
EBITDA Margin	29%	32%	37%	34%	31%



Segment Sales & Operating Profit

Sales

(Unit: KRW Trillion)

	4Q '18	4Q '17	3Q '18	YoY	QoQ	FY '18	FY '17	YoY
Total	59.27	65.98	65.46	10% ↓	9% ↓	243.77	239.58	2% ↑
CE	11.79	12.57	10.18	6% ↓	16% ↑	42.11	44.60	6% ↓
VD	7.54	8.36	5.98	10% ↓	26% ↑	25.29	27.52	8% ↓
IM	23.32	25.47	24.91	8% ↓	6% ↓	100.68	106.67	6% ↓
Mobile	22.19	25.03	23.99	11% ↓	8% ↓	96.52	103.62	7% ↓
DS	27.76	32.05	34.76	13% ↓	20% ↓	118.57	108.17	10% ↑
Semiconductor	18.75	21.11	24.77	11% ↓	24% ↓	86.29	74.26	16% ↑
- Memory	15.50	17.94	21.05	14% ↓	26% ↓	72.38	60.30	20% ↑
DP	9.17	11.18	10.09	18% ↓	9% ↓	32.47	34.47	6% ↓
Harman	2.55	2.32	2.22	10% ↑	15% ↑	8.84	7.10	25% ↑

Operating Profit

(Unit: KRW Trillion)

	4Q '18	4Q '17	3Q '18	YoY	QoQ	FY '18	FY '17	YoY
Total	10.80	15.15	17.57	△4.35	△6.77	58.89	53.65	5.24
CE	0.68	0.55	0.56	0.13	0.12	2.02	1.80	0.22
IM	1.51	2.42	2.22	△0.90	△0.71	10.17	11.83	△1.66
DS	8.50	12.20	14.56	△3.70	△6.07	46.52	40.33	6.19
Semiconductor	7.77	10.90	13.65	△3.13	△5.88	44.57	35.20	9.37
DP	0.97	1.41	1.10	△0.44	△0.13	2.62	5.40	△2.78
Harman	0.07	0.06	0.08	0.01	△0.01	0.16	0.06	0.10

※ 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.

Q4 Results and Outlook by Business Unit

Semiconductor

[Q4 '18 Results]

- Memory: Demand decreased due to mounting external uncertainties and inventory adjustments at major customers
 - DRAM: Earnings fell significantly due to slow sales
 - NAND: Price continued to decrease due to supply growth in the industry
- S.LSI: Demand for image sensors was slow under weak seasonality
- Foundry: Demand for APs fell due to weak seasonality and continued contractions of crypto currency markets

[Q1 '19 Outlook]

- Memory: Demand to remain slow under continued inventory adjustments at major applications and weak seasonality
 - DRAM: Migrate to 1ynm process node and increase sales of premium/differentiated products
 - NAND: Focus on addressing demand for high-capacity All-Flash-Array solutions and UFS
- S.LSI: Boost sales of APs and image sensors for flagship smartphones
- Foundry: Demand to remain slow for mobile products and mining chips

[2019 Outlook]

- Memory: Demand to improve on strong seasonality and a shift toward higher-capacity chips by major applications
 - DRAM: Focus on technological competitiveness by stably ramping up 1ynm process and developing of 12nm process
 - NAND: Strengthen cost competitiveness by expanding supply of 5th generation V-NAND
- S.LSI: Commercialize 5G modem chips and expand image sensor lineup
- Foundry: Expand mass production of 7nm EUV process; increase customers base by at least 40% y-y

D P

[Q4 '18 Results]

- Mobile: Earnings fell slightly q-q despite strong demand for flexible OLED panels due to growing competition between our rigid OLED panels and LTPS LCD panels
- Large: Earnings improved slightly q-q on the back of increasing sales in the premium segment amid a trend towards ultra-large, high-resolution TVs

[Q1 '19 Outlook]

- Mobile: Market conditions to worsen as competition in the mobile panel industry intensify amid a sluggish smartphone market
- Large: ASPs to continue to be pressured by slow demand under weak seasonality and by large-scale capacity ramp-ups in the industry

[2019 Outlook]

- Mobile: Increase penetration of OLED panels in the sluggish smartphone market by offering differentiated designs and functions
Expand the OLED market by offering technological innovations for new applications
- Large: Focus on delivering products with differentiated design rather than making market-share gains
Increase focus on the high-resolution, ultra-large product segment

Q4 Results and Outlook by Business Unit

I M

[Q4 '18 Results]

- Mobile: Profits fell y-y due to a dip in sales caused by weak smartphone shipments amid a stagnant market despite strong seasonality
- N/W: Earnings improved on increased overseas LTE investments and initial supply of 5G equipment to Korean and US clients

[Q1 '19 Outlook]

- Mobile: Launch of Galaxy S10, featuring differentiated design and leading specifications, will strengthen leadership in the premium market and help improve earnings by boosting flagship sales

Total smartphone shipments to stay flat q-q due to reorganization of product lineups for the mass markets
- N/W: Commercialization of 5G in Korea to expand and overseas LTE investment to continue

[2019 Outlook]

- Mobile: Lift sales by: 1) introducing new designs and diversified lineups for flagship models; and 2) strengthening hardware specifications and reorganizing lineups for mid-range-and-below products

Secure profitability by increasing component standardization and improving marketing efficiency

Boost technological leadership by launching 5G and foldable models
- N/W: Lead the global 5G market and solidify foundation for growth via supply expansion in the initial markets of Korea and the US

C E

[Q4 '18 Results]

- TV: Earnings improved thanks to growing sales of premium products—such as QLED and ultra-large TVs—on the back of successful year-end promotions
- DA: Earnings improved slightly thanks to strong sales of premium products—*e.g.*, Family Hub refrigerators, large-capacity dryers, and Cube air purifiers

[Q1 '19 Outlook]

- TV: Focus on expanding sales of premium products such as QLED and ultra-large TVs while improving profitability via early launches of new premium models
- DA: Focus on increasing sales of premium products such as Breeze-free air conditioners and Cordless vacuum cleaners while securing profitability via improved sales mixes and cost efficiencies

[2019 Outlook]

- TV: Grow earnings and solidify leadership in the premium TV market by expanding global sales of QLED 8K TVs and launching innovative products such as Micro LED TVs
- DA: Focus on improving earnings by expanding sales of premium products and strengthening our B2B business

[Appendix 1] Financial Position

(Unit : KRW Billion)

	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017
Assets	339,357.2	337,195.8	301,752.1
- Cash *	104,213.6	97,781.5	83,604.4
- A/R	33,867.8	41,940.1	27,696.0
- Inventories	28,984.7	28,242.8	24,983.4
- Investments	17,706.8	17,145.9	16,644.2
- PP&E	115,416.7	115,003.1	111,665.6
- Intangible Assets	14,891.6	14,800.1	14,760.5
- Other Assets	24,276.0	22,282.3	22,398.0
Total Assets	339,357.2	337,195.8	301,752.1
Liabilities	91,604.0	95,092.6	87,260.7
- Debts	14,667.1	21,685.4	18,814.0
- Trade Accounts and N/P	8,479.9	10,209.2	9,083.9
- Other Accounts and N/P & Accrued Expenses	31,051.2	25,735.8	27,895.9
- Income Tax Payables	8,720.1	8,822.6	7,408.3
- Unearned Revenue & Other Advances	1,771.5	1,763.7	2,042.8
- Other Liabilities	26,914.2	26,875.9	22,015.8
Shareholders' Equity	247,753.2	242,103.2	214,491.4
- Capital Stock	897.5	897.5	897.5
Total Liabilities & Shareholder's Equity	339,357.2	337,195.8	301,752.1

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

	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017
Current ratio *	253%	236%	219%
Liability/Equity	37%	39%	41%
Debt/Equity	6%	9%	9%
Net debt/Equity	△36%	△31%	△30%

* Current ratio = Current assets/Current liabilities

[Appendix 2] Cash Flow

(Unit : KRW Trillion)

	4Q '18	FY '18	FY '17
Cash (Beginning of period) *	97.78	83.60	88.23
Cash flows from operating activities	22.43	67.03	62.16
Net profit	8.46	44.34	42.19
Depreciation	6.60	25.17	20.59
Cash flows from investing activities	△6.07	△31.03	△50.56
Purchases of PP&E	△5.84	△29.56	△42.79
Cash flows from financing activities	△9.40	△15.09	△12.56
Increase in debts	△6.96	△4.03	2.59
Acquisition of treasury stock	-	△0.88	△8.35
Payment of dividends	△2.45	△10.19	△6.80
Increase in cash	6.43	20.61	△4.63
Cash (End of period) *	104.21	104.21	83.60

* 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)

	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017
Net Cash	89.55	76.10	64.79

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