



## Samsung Electronics Announces First Quarter Results

*Registers net profit of KRW 7.68 trillion on sales of KRW 50.55 trillion*

*1Q consolidated operating profit reaches KRW 9.90 trillion*

**SEOUL, Korea – April 27, 2017** – Samsung Electronics Co., Ltd. today announced financial results for the first quarter ended March 31, 2017. Samsung's revenue for the quarter was KRW 50.55 trillion, an increase of KRW 0.77 trillion YoY, while operating profit for the quarter was KRW 9.90 trillion, an increase of KRW 3.22 trillion YoY.

In the first quarter, sales for the memory and display businesses increased, owing to high ASPs and strong sales of premium products. However, revenue from the mobile business decreased due to a decline in flagship product sales.

Profits were driven by the components businesses, namely the semiconductor division and the display panel segment.

The memory business posted significant earnings growth, both YoY and QoQ, led by favorable supply-demand conditions and sales growth of premium high-density enterprise SSDs. The System LSI business improved its earnings on the back of increased sales of application processors for flagship smartphones and greater demand for image sensors and display driver IC (DDI).

For the display panel business, LCD maintained solid earnings QoQ due to robust sales of large high-resolution panels under favorable ASP conditions. Overall OLED performance improved YoY, due to strong demand, and slightly improved QoQ as a result of increased sales of new flexible products.

For the IT & Mobile Communications (IM) Division, earnings declined QoQ due to price adjustment of the Galaxy S7. As for the Consumer Electronics (CE) Division, earnings for the TV business declined YoY due to higher panel prices.

Regarding the recently acquired Harman, its earnings were consolidated into Samsung's first quarter results beginning March 11. As a result, its impact on the first quarter financials was minimal.

Looking ahead to the second quarter, the company expects to achieve growth on the back of continued robust memory performance together with improved earnings from the mobile business following the global rollout of the Galaxy S8 and S8+.

For the components businesses, semiconductor earnings growth is expected to continue. This will be driven by solid demand for high-density DRAM and SSDs in the server market, increased shipments of 10nm AP, and sustained strong demand for image sensors and DDI.

As for the display business, the company will focus on fulfilling strong demand for flexible OLED panels, and look to maintain profitability in LCD through enhanced cost reduction.

For the set businesses, operating profit is expected to improve in the mobile business following the global expansion of the Galaxy S8 and S8+. In the CE Division, earnings will likely improve with the launch of QLED TV and strong seasonal demand for air conditioners.

Moving on to the outlook for the full year ahead, the company expects overall earnings to grow YoY. This will be led mainly by the components businesses based on favorable supply-demand conditions for memory and greater shipments of OLED panels. The set businesses, meanwhile, will focus on maintaining profitability through expanded sales of flagship products.

For the memory business, amid strong demand for servers and mobile devices, the company will look to maintain profitability by enhancing cost competitiveness through sales of 1xnm DRAM and 64-layer V-NAND. Meanwhile, the possibility of an increase in the industry's supply of 3D NAND in the second half of 2017 exists.

For OLED, revenue is expected to grow YoY due to an increase in the supply of flexible panels in the second half. However, in the mid- to low-end segment, the company anticipates possible competition from LTPS LCDs.

For the mobile business, market competition is expected to intensify in the second half. Against this backdrop, the company will strive to maintain profitability through robust sales of the Galaxy S8 and S8+ and the launch of a new flagship smartphone in the second half. Moreover, Samsung will also look to sustain profitability in the mid- to low-end segment by launching new products and streamlining the lineup.

For the TV business, Samsung will focus on increasing profitability by expanding its high-end lineup, including ultra-large size and UHD TVs. Additionally the home appliance business will continue to secure new sources of revenue by increasing investments in the B2B segment.

Looking at the mid- to long-term, the growth of IoT, AI and automotive businesses in the IT industry is expected to drive demand for components, particularly high-performance energy-efficient memory products, SoCs and sensors, as well as flexible OLED panels for new form factors.

Meanwhile new business opportunities are expected in the set business with developments in cloud, AI and connectivity solutions for smartphones and smart home products.

In response to these paradigm shifts, the company is aware of the need to strengthen its capabilities via strategic investments and M&As. However, uncertainties in the business environment may pose challenges.

Total capital expenditure (CAPEX) executed in the first quarter was KRW 9.8 trillion, including KRW 5.0 trillion for the semiconductor business and KRW 4.2 trillion for the display segment. Although the capex plan for 2017 has not been finalized, the overall annual capex is expected to increase significantly particularly for investments in V-NAND, System LSI and OLED.

### **Differentiated Chips & Stable Demand to Drive Profitability**

The Semiconductor business posted KRW 6.31 trillion in operating profits on consolidated revenue of KRW 15.66 trillion for the quarter.

Samsung improved earnings in the first quarter in both DRAM and NAND by focusing on high-density and value-added products for datacenters, enterprise SSDs and flagship smartphones. Even amid slower demand due to weak seasonality compared with the previous quarter, the prices of memory products remained strong due to limited supply.

For NAND, Samsung continued to post solid growth in the quarter by actively meeting demand for high-density server SSD over 4TB and mobile products over 64GB and by expanding 48-layer V-NAND supply.

On the DRAM side, strong demand for datacenter DRAM and customers stocking up to preempt any market uncertainties in the second half have contributed to solid supply and demand and strong pricing. The company's efforts to enhance profitability through cost competitiveness in expanding the 1xnm process also boosted gains in the first quarter.

Looking ahead to the second quarter, while overall demand is expected to be solid due mainly to demand for high-density server SSD, overall supply will remain tight due to constraints on the industry's 3D NAND supply. However, Samsung will improve profitability and product competitiveness by expanding 48-layer V-NAND supply and mass producing 64-layer V-NAND.

In DRAM, with the expansion of new server platforms in the market, demand for high performance server DRAM over 64GB is forecast to increase. New mobile device launches and adoption of higher density DRAM in the second quarter will increase demand for mobile DRAM. Samsung will remain profitable with high performance, high value-added chipsets.

In the second half, overall supply and demand in the memory market will be stable amid peak seasonality and new mobile devices being released in the market. However, tight supply-demand conditions may change due to possible expansion of industry supply.

With regards to the System LSI business, Samsung improved its earnings in the first quarter on the back of strong sales of APs, DDIs and image sensors for flagship smartphones and 14nm APs for mid- to low-end smartphones. In the second quarter, the company expects to secure growth with solid market demand for 10nm APs, image sensors and DDIs.

For 2017, System LSI will diversify its 14nm product line-up for automotive, IoT and wearable industries and produce differentiated products with innovative technologies.

### **Display Panel Segment Maintains Solid Performance**

The Display Panel segment posted KRW 7.29 trillion in consolidated revenue and KRW 1.30 trillion in operating profit for the quarter.

For OLED, earnings improved YoY due to higher utilization rates driven by strong demand while also gaining QoQ due to increased shipments of flexible displays and strong demand for rigid OLED panels.

For LCD, the company maintained solid earnings QoQ by increasing sales of large-size high-resolution panels under favorable supply and demand conditions. An expansion in the portion of value-added LCD products, particularly large-size UHD panels, helped strengthen profitability for the quarter.

Looking to the second quarter, the company plans to actively address the expected continuous rise in demand for OLED panels, including flexible displays. For LCD, demand for large-size and UHD panels is forecast to continue and the company will focus on securing profits through expansion of value-added products, including ultra large-size and curved panels, and by improving yields and reducing costs.

For 2017, although YoY revenue growth in the OLED business is forecast on the back of increased flexible panel shipments in the second half, growing competitiveness from LTPS LCD panels against OLED in the mid- to low-end segment will present challenges. For the LCD business, under expanding market conditions the company will continue to focus on strengthening profitability and competitiveness through value-added and differentiated products such as frameless and curved TVs.

### **Flagships Sales Expansion to Strengthen Mobile Leadership**

The IM Division - comprising the Mobile Communications and Networks Businesses - posted KRW 23.50 trillion in consolidated revenue and KRW 2.07 trillion in operating profit for the quarter.

While smartphone and tablet market demand saw a slight decrease QoQ due to seasonal effects, smartphone shipments for the division slightly increased. This increase was largely due to the newly released Galaxy A 2017 series and solid sales in the mid- to low-end segment in emerging markets. However, overall profit for the division decreased due to price adjustments of Galaxy S7 and S7 edge.

Looking ahead to the second quarter, while market demand for smartphones and tablets is forecast to remain flat, the worldwide rollout of latest flagship models, Galaxy S8 and S8+, is expected to help the division increase revenue and profit QoQ, while smartphone shipments are expected to remain flat due to decreased sales of mid- to low-end smartphones. The Galaxy S8 and S8+, which were launched on April 21, show robust initial sales.

As for the year ahead, Samsung anticipates market demand in smartphones to slightly increase with solid replacement demand growth in the mid- to high-end segment. However, competition is expected to intensify with newly launched smartphones in the market. The company will aim to improve performance YoY by maximizing sales of the Galaxy S8 and S8+ and successfully launching a new flagship

smartphone in the second half. In addition, the company will maintain profitability in the mid- to low-end segment.

For the Networks Business, the company will seek growth through the continued rollout of LTE services in new markets around the world, expanded business opportunities with next generation networks, including IoT and LTE-A Pro, and preparation for 5G broadband services.

### **Consumer Electronics to Focus on Premium Products**

The Consumer Electronics Division, including the Visual Display and Digital Appliances businesses, posted KRW 10.34 trillion in consolidated revenue and KRW 0.38 trillion in operating profit for the first quarter.

In the first quarter, the TV market is projected to decline QoQ due to weak seasonality as well as decreased demand in the European and Latin American markets. Although the company achieved sales growth and maintained its leading position in the premium market thanks to its high-end product line-ups including Quantum Dot TV and curved TV, profit declined YoY due to increased panel prices and currency fluctuations.

For the appliances business, sales improved YoY led by continued growth in the North American market and increased sales of innovative premium products such as Chef Collection refrigerators and Activewash™ washers. However, earnings remained flat YoY due to investments in the North American B2B market.

Looking to the second quarter, TV market demand is projected to show a slight decrease YoY due to sluggish demand mostly in Europe. Under these circumstances, Samsung will aim to secure profitability and solidify its market leadership by expanding its premium TV line-ups including UHD and curved TVs, as well as beginning sales of new premium products such as QLED TVs and The Frame.

As for the Digital Appliances Business, the company will strengthen its partnership with retailers and expand sales of seasonal products, including air conditioners, and focus on the launch of new products such as Family Hub 2.0 refrigerators and FlexWash washers in the second quarter.

For the TV market in 2017, demand is forecast to slightly increase due to recovery in emerging markets and strong UHD TV demand. While market competition is expected to intensify, Samsung will focus on sales of premium products to solidify its leadership in major markets.

As for Digital Appliances in 2017, Samsung will strengthen its B2B business by making full-scale advancement into the North American builders market, boosting online sales through key distribution channels, and expanding sales of premium products to achieve stronger performance.

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### **About Samsung Electronics Co., Ltd.**

Samsung inspires the world and shapes the future with transformative ideas and technologies. The company is redefining the worlds of TVs, smartphones, wearable devices, tablets, digital appliances, network systems, and memory, system LSI and LED solutions. For the latest news, please visit the Samsung Newsroom at <http://news.samsung.com>.

\* Notice: Details about Samsung Electronics' capital expenditure and shareholder returns will be made available when disclosures have been filed with the nation's financial regulator before the 1Q earnings conference call.

### **※ Consolidated Sales and Operating Profit by Segment based on K-IFRS (2016~2017 1Q)**

(Unit: KRW trillion)		2016					2017	
		1Q	2Q	3Q	4Q	FY	1Q	
Sales	CE	10.07	11.04	10.78	13.21	45.10	10.34	
	IM	27.60	26.56	22.54	23.61	100.30	23.50	
	Semicon	DP	11.15	12.00	13.15	14.86	51.16	15.66
		DS	6.04	6.42	7.06	7.42	26.93	7.29
		DS	17.18	18.43	20.29	22.26	78.15	22.85
	<b>Total</b>	<b>49.78</b>	<b>50.94</b>	<b>47.82</b>	<b>53.33</b>	<b>201.87</b>	<b>50.55</b>	
OP	CE	0.50	1.00	0.79	0.43	2.71	0.38	
	IM	3.89	4.32	0.10	2.50	10.81	2.07	
	Semicon	DP	2.63	2.64	3.37	4.95	13.60	6.31
		DS	-0.27	0.14	1.02	1.34	2.23	1.30
		DS	2.33	2.79	4.40	6.34	15.85	7.59
	<b>Total</b>	<b>6.68</b>	<b>8.14</b>	<b>5.20</b>	<b>9.22</b>	<b>29.24</b>	<b>9.90</b>	

**Note 1:** Sales for each business include intersegment sales

**Note 2:** CE (Consumer Electronics), IM (IT & Mobile Communications), DS (Device Solutions), DP (Display Panel)

**Note 3:** Information on annual earnings is stated according to the business divisions as of 2017.

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