



## Samsung Electronics Announces Second Quarter Results

*Registers net profit of KRW 11.05 trillion on sales of KRW 61.00 trillion*

*2Q consolidated operating profit reaches KRW 14.07 trillion*

**SEOUL, Korea – July 27, 2017** – Samsung Electronics Co., Ltd. today announced financial results for the second quarter ended June 30, 2017. Samsung's revenue for the quarter was KRW 61.00 trillion, an increase of KRW 10.06 trillion YoY, while operating profit for the quarter posted a record KRW 14.07 trillion, an increase of KRW 5.92 trillion YoY.

In the second quarter, the components businesses drove significant earnings growth, both YoY and QoQ, thanks primarily to strong memory demand for high-density DRAMs and SSDs for servers. System LSI contributed to earnings through increased sales of AP and CIS products while the Display Panel Business expanded sales of flexible OLED panels for premium smartphones and high-value LCDs under stable prices. Profits from the Mobile Business, driven by robust sales for the Galaxy S8 and S8+, also increased significantly QoQ.

The Memory Business posted significant earnings growth, both YoY and QoQ, amid tight supply-demand conditions while strong ASPs coupled with increased demand from the server market also contributed to profits. The System LSI Business increased sales of mobile processors and image sensors.

For the Display Panel business, OLED earnings improved QoQ with the help of increased shipments of flexible displays for premium smartphones. LCD panels enhanced profitability QoQ due mainly to increased sales of high-end, large-size UHD panels, amid stable ASP conditions.

The Mobile Business saw a significant increase in earnings QoQ with the global rollout of the Galaxy S8 and S8+. However the operating profit margin declined slightly YoY due to strong component prices. Earnings for the TV business declined due to increased panel prices and slow demand from Europe and China. For the home appliances business, continued B2B investment led to a decline in earnings YoY.

Regarding Harman's earnings in the quarter, it registered solid results from operations with USD 1.9 billion in sales and around USD 200 million in operating profit. However, with costs associated with the acquisition, net operating profit was approximately USD 5 million. Samsung expects such costs to continue to impact Harman's results by an average of USD 100 million each quarter for the next few quarters.

Looking ahead to the third quarter, the company expects favorable semiconductor conditions to continue, although overall earnings may slightly decline QoQ as earnings weaken for the Display Panel and Mobile businesses. For the Display Panel Business, an increase is expected in initial start-up costs for the new OLED production line, and intensifying price competition is forecast from LTPS LCD in the mid- to low-end rigid OLED segment. For the Mobile Business, earnings are forecast to decline due to increased marketing costs related to the launch of a new Note device, with reduced profit contributions from the Galaxy S8 and S8+.

Moving on to the outlook for second half, the company expects earnings to grow primarily from the component businesses, as conditions in the memory market are likely to remain favorable and the company expects increased sales of flexible OLED panels. However, ASP pressures on LCD panels and on rigid OLED panels, prompted by the industry's increase in LCD supply, may remain a concern.

For the Memory Business, solid demand for servers and mobile devices will continue due to the expansion of new server platforms, cloud services and new smartphones to market in the second half. By expanding the supply of 1Xnm DRAM and 64-layer V-NAND, Samsung will further enhance product competitiveness.

The System LSI and Foundry businesses are also expected to post positive results, while the display segment anticipates an increase in revenue from the expanded supply of flexible OLED panels.

The Mobile Business will aim to sustain the strong sales momentum of premium smartphones through the release of a new Galaxy Note smartphone and continued sales of the Galaxy S8 and S8+. It will also continue to improve the lineup efficiency in the mid- to low-end segment to maintain profitability.

For the TV business, Samsung will focus on improving profitability by expanding its high-end offerings, including ultra-large size and UHD TVs. Additionally, the company expects to solidify its leadership in the premium segment with products such as The Frame and QLED TVs. Meanwhile, the Digital Appliances Business will seek to improve profits in the B2B segment.

Looking at the mid- to long-term, the company will strongly focus on enhancing the competitiveness of the company's core businesses. To this end, Samsung will reinforce its technological leadership in the semiconductor and OLED industries and will focus on strengthening its design and manufacturing capabilities to transform the System LSI and Foundry businesses as future growth engines.

To respond to a paradigm shift in the IT industry, the company is set to develop new growth engines by making strategic investments and securing advanced technologies through M&As. Challenges lie ahead, however, due to volatilities in the global business environment.

Total capital expenditure (CAPEX) executed in the second quarter was KRW 12.7 trillion, including KRW 7.5 trillion for the semiconductor business and KRW 4.5 trillion for the display segment. Although the capex plan for 2017 has not been finalized, the annual capex is expected to be significantly higher than the previous year.

The Memory Business plans to expand the Pyeongtaek fab to respond to increasing demand for V-NAND. The business also expects to spend capex on converting a part of existing planar capacity to V-NAND. Despite the increase in 2017 capex for the Memory Business, the memory supply outlook of Samsung for this year remains unchanged. The Foundry Business is increasing 10nm capacity to address demand for cutting-edge process technology. In addition, it expects to allocate sizable capex for converting part of line 11 from DRAM to image sensor production in the second half. Further, Samsung is continuously investing in flexible OLED capacity to respond to increasing demand from customers.

## **Semiconductor Maintains Strong Performance**

The Semiconductor businesses posted KRW 8.03 trillion in operating profits on consolidated revenue of KRW 17.58 trillion for the quarter.

The Memory Business achieved solid earnings growth in the quarter thanks to continued strong demand for high-density server DRAM and SDD, despite weaker seasonal demand for mobile. Limited supply conditions also remained in the industry, which allowed for favorable supply-demand conditions and prices. For NAND, earnings were driven by expanded sales of value-added products, such as mobile products over 64GB, datacenter NVMe SSD and enterprise SSD. For DRAM, demand for differentiated products, such as high-density server products and HBM, contributed to earnings growth.

Looking at the second half outlook for NAND, Samsung expects strong industry demand from flagship smartphone launches and expansion of new datacenters, while restricted supply conditions will also

remain. The company will focus on ramping up production of 64-layer V-NAND at its Pyeongtaek fab, and will seek to improve profitability by expanding sales of differentiated products such as V-NAND-based server SSDs.

As for the DRAM outlook, demand for high-density products over 64GB is expected to remain solid due to expansion of new server platforms and continued demand for datacenter servers. Mobile demand will also remain solid thanks to high-end smartphone launches. The company plans to actively respond to increasing demand by expanding 1Xnm migration, while also enhancing profitability through sales of high value-added products, such as mobile DRAM over 4GB and server DRAM over 64GB.

Turning to the System LSI Business, earnings improved QoQ due mainly to increased sales of processors for flagship smartphones and steady sales of 14nm processors for mid- to low-end smartphones. Sales of image sensors also contributed to earnings. Looking ahead, continued growth is expected thanks to stable supply of 10nm mobile processors and increased supply of OLED DDIs for flagship smartphones. Growing market adoption of dual camera solutions will also boost image sensor shipments. In the mid-to-long term, System LSI will seek to diversify its customer base and product portfolio with offerings for various applications, including IoT, automotive and VR.

As for the Foundry Business, which became independent from System LSI in the second quarter, favorable results were achieved thanks to mass production of 10nm processors for flagship smartphones and increased sales of 14nm mobile processors. Looking ahead, Samsung plans to actively respond to demand for 10nm mobile processors by expanding capacity and improving production efficiency. It will also look to maintain technology leadership by completing development of the 8nm process and preparing advanced infrastructures including EUV.

### **Display Panel Continues Solid Earnings**

The Display Panel segment posted KRW 7.71 trillion in consolidated revenue and KRW 1.71 trillion in operating profit for the quarter driven by increased sales of premium OLED displays and high-end, large-size LCD panels.

For the OLED business, earnings improved QoQ on the back of increased shipments of premium flexible displays for flagship smartphones while the LCD business saw profitability enhanced QoQ due mainly to increased sales of high-end, large-size UHD panels amid stable ASP conditions.

Looking ahead to the second half for the OLED business, although the company forecasts increased sales of premium flexible displays, the initial costs of the new OLED production line during the third quarter is expected to weigh on profit. Growing competition from LTPS LCDs will also pose a challenge for the mid- to low-end rigid OLED segment. Samsung plans to maintain profitability by actively addressing customer demand for new products through stable ramp up of the new OLED production line.

As for the LCD business in the second half, while the company forecasts continued growth in the premium, large-size, high-resolution UHD TV panel segment, increased panel inventory of set makers amid capacity expansion in the LCD industry is expected. Samsung will focus on enhancing profitability through improved cost competitiveness and by expanding its portfolio of high-end products including ultra-large size, high-resolution, frameless and curved panels.

### **Mobile Division Posts Significant Increase**

The IT & Mobile Communications (IM) Division posted KRW 30.01 trillion in consolidated revenue and KRW 4.06 trillion in operating profit for the quarter.

Samsung's earnings significantly increased QoQ driven by the strong sales of the Galaxy S8 and S8+ smartphones. The Galaxy S8 and S8+ have outsold the Galaxy S7 series in almost all regions, thanks to the new Infinity Display design and enhanced features including water and dust proofing and iris recognition. The overall product mix also improved as the sales proportion of the Galaxy S8+ accounted for over 50 percent of the total Galaxy S8 series.

However, despite the strong sales performance of premium smartphones, Samsung's total smartphone shipments remained at a similar level QoQ, due to decreased sales of mid- to low-end products.

In the second half, demand for smartphones and tablets is forecast to increase as the market enters a period of strong seasonality. However, competition is expected to intensify as new smartphone models are released by competitors. In response, Samsung will launch a new Galaxy Note with enhanced performance and features, to maintain the strong sales momentum of its premium smartphones, together with the Galaxy S8 and S8+.

For the mid- to low-end segment, Samsung will actively respond to demand from emerging markets and maintain profitability with enhanced products such as the Galaxy J series 2017 editions which are equipped with elegant metal designs, high-definition selfie cameras and specialized services such as Samsung Pay.

Looking into the third quarter, revenue and profit are expected to decline QoQ due to increased marketing expenses associated with the launch of the new Galaxy Note and the reduced launching effect of the Galaxy S8 and S8+.

Putting customer safety first and foremost, the company will continue to reinforce product competitiveness based on technological leadership and also strengthen its differentiated services across all of its products. In particular, the company will foster differentiated services by creating an open ecosystem that promotes full connectivity between key services such as Samsung Pay, Samsung Cloud, Bixby, and other third-party services, while enhancing connected services among its various product categories.

As for the Networks Business, solid revenue and profit were maintained QoQ due to increased LTE investment by major global partners in the second quarter. The company will focus on next generation network business such as IoT while continuing to expand LTE-A into major advanced markets.

## **Consumer Electronics Focuses on Premium Products**

The Consumer Electronics Division, including the Visual Display and Digital Appliances businesses, posted KRW 10.92 trillion in consolidated revenue and KRW 0.32 trillion in operating profit for the second quarter.

In the second quarter, overall TV market demand declined YoY, owing to heightened demand in 2016 due to major global sporting events, as well as a slowdown in the Chinese market. Although the company maintained its leading position in the premium market by increasing sales of UHD and ultra large-size TVs, profit declined YoY due to increased panel prices.

For the appliances market, overall demand showed a moderate increase due to growth in the North American market, strong demand for air conditioners in the Korean market and economic recovery in emerging markets such as Southwest Asia and CIS. Samsung maintained revenue growth thanks to increased sales of premium products such as the Wind-Free air conditioner. However, profit decreased YoY due to increased raw material costs and investments in the B2B market.

Looking to the second half, TV market demand is projected to show slight growth YoY while panel prices are expected to stabilize. Samsung will secure profitability by expanding the sales portion of premium products including UHD and ultra large screen TVs. Led by The Frame and QLED TVs, the company will

solidify its premium leadership in the market. To maximize QLED TV sales, Samsung will strengthen marketing investment and implement sales promotions tailored to local markets.

As for the Digital Appliances Business, the company will strengthen its partnerships with distributors and seek to improve profitability through increased sales of premium products, including Family Hub refrigerators and FlexWash washers. In addition, Samsung will strengthen its B2B business with built-in home appliances and system air conditioners.

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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 2Q earnings conference call.

### **※ Consolidated Sales and Operating Profit by Segment based on K-IFRS (2016~2017 2Q)**

(Unit: KRW trillion)		2016					2017	
		1Q	2Q	3Q	4Q	FY	1Q	2Q
Sales	CE	10.07	11.04	10.78	13.21	45.10	10.34	10.92
	IM	27.60	26.56	22.54	23.61	100.30	23.50	30.01
	Semicon	11.15	12.00	13.15	14.86	51.16	15.66	17.58
		DP	6.04	6.42	7.06	26.93	7.29	7.71
	DS	17.18	18.43	20.29	22.26	78.15	22.85	25.25
	<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>	<b>61.00</b>
OP	CE	0.50	1.00	0.79	0.43	2.71	0.38	0.32
	IM	3.89	4.32	0.10	2.50	10.81	2.07	4.06
	Semicon	2.63	2.64	3.37	4.95	13.60	6.31	8.03
		DP	-0.27	1.02	1.34	2.23	1.30	1.71
	DS	2.33	2.79	4.40	6.34	15.85	7.59	9.69
	<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>	<b>14.07</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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