

< '15.4Q Earnings Conference Call Transcript >

Samsung Electronics
IR Group

Operator

Good morning and good evening. First of all, thank you all for joining this conference call. And now, we will begin the conference of the Fiscal Year 2015 Fourth Quarter Earnings Results by Samsung Electronics. This conference will start with a presentation followed by divisional Q&A session.

Now, we shall commence the presentation on the fiscal year 2015 fourth quarter earnings results by Samsung Electronics.

Robert M. Yi

Good morning. This is Robert Yi from Investor Relations. Thank you for joining our call. Today, we have five gentlemen from the business units. Sewon Chun, Senior VP of Memory Marketing; Hong KyuShik, VP of System LSI Marketing, Lee ChangHoon, Vice President of Samsung Display, Lee KyeongTae, also Vice President of IT and Mobile Businesses, and Lee Yoon, is the Senior VP of Visual Display Business, and also Mr. Kim SangHyo, VP of IR.

I would like to remind you that some of the statements we'll be making today are forward-looking based on the environment as we currently see, and all such statements are subject to certain risks and uncertainties that could cause our actual results to be materially different from those expressed in today's discussion.

Before we go into the fourth quarter results, I would like to update you on the shareholder return. As you know, we announced in October of last year, KRW 11.3 trillion or about \$10 billion of special buyback program and three-year shareholder return policy. Under that special buyback program, we just completed the first phase on January 12 of this year. The total amount was KRW 4.25 trillion, and we repurchased and canceled 2.23 million common shares and 1.24 million preferred shares. We were able to reduce the total amount used in the buyback by increasing the proportion of preferred shares relative to the outstanding share ratio.

Today, the board of directors approved the second phase of the buyback program. The total amount is approximately KRW 3 trillion, with 2.1 million common shares and 530,000 preferred shares. I assume we will take about three months to complete starting tomorrow. As I mentioned last year, the special buyback and cancellation program is currently being implemented over three to four phases and is expected to be completed within this year.

Next, I would like to address the 2015 annual shareholder return. The board approved annual dividend of KRW 3 trillion, which is the same level as that of 2014 including the special dividend. This brings the 2015 annual dividend per share including the interim dividend to KRW 21,000, which is 5% increase over 2014.

Although a similar capital was allocated to 2015 annual dividend, the partial dividend amount increased due to a reduction in total number of outstanding shares resulting from the first phase of the special buyback program. With the KRW 1,000 per share interim dividend already paid, the year-end dividend per share is KRW 20,000 for the ordinary shares. With various capital expenditure opportunities to consider in 2016, we will review the ways to provide additional shareholder returns when we can get more visibility of 2016 free cash flow.

Now, I'll go over our fourth quarter results. The overall revenue came in at approximately KRW 53.3 trillion, a 3% increase compared to the previous quarter. The increase mainly came from the consumer electronics business.

Our SG&A expenditures increased Q-on-Q by KRW 0.5 trillion as marketing expenses increased from seasonality, but the ratio to revenue remained flat quarter-on-quarter. The overall operating profit decreased by KRW 1.3 trillion Q-on-Q to KRW 6.1 trillion.

Amid unstable macroeconomic conditions including a sharp fall on oil price, most of the earnings decline came from the component businesses. The continued weakness in PC demands and slowing IT demand continued to put pressure on DRAM prices.

LCD ASP also declined sharply due to supply and demand imbalance. The component businesses experienced another negative factor on their earnings this quarter, as the positive foreign currency impact, that significantly contribute to the component business' earnings in the third quarter, turned negative this quarter due to strong won. We estimate the strong won against major currencies in the Q4 brought approximately KRW 400 billion of negative impact to our fourth quarter operating profit, affecting mostly the set businesses.

The non-operating profit for the quarter was negative KRW 1.4 trillion. The other non-operating loss was KRW 2.5 trillion. In accordance with International Accounting Standard, we recorded impairment losses on equity investments in several entities including Samsung SDI and Samsung Card, whose share prices have declined this year for longer than six months, as well as reduction in some intangible assets.

On the other hand, we recorded approximately KRW 1 trillion equity income in this quarter. BioLogics, which we own 47%, changed its accounting method of its investment on Bioepis from a consolidation method to an equity method. In this process, BioLogics recorded gains from the re-evaluation of its investment in Bioepis. For your reference, these transactions had no impact on our 2015 free cash flow.

The fourth quarter ROE and EBITDA ratio declined; especially the ROE ratio declined mostly from the non-operating items. Without these non-operating items, the fourth quarter ROE should have been 10%. The business unit representatives will discuss the results in more detail shortly after.

Now, I would like to make few comments on the future outlook. We expect difficult business conditions to continue into Q1. With weak seasonal demand and the IT industry slowdown, especially we anticipate overall weak demand environment for our component businesses.

For semiconductors, we will focus on reinforcing product competitiveness of high-density and solution memory products and the ramp up of the second generation 14-nano process.

For display panel, we expect steady earnings from OLED business driven by new product launches of major

OLED customers. However, LCD profitability is expected to weaken due to continued weak supply and demand balance.

For the set business, we expect handset shipments to decrease due to weak seasonality and discontinuation of all models, but we'll strive to generate strong profit in mobile business by improving product mix through launches of various new products this quarter.

For 2016, although it is too early to provide the outlook in specific detail, it would be a challenge to maintain 2015 operating profit level as we expect weak macroeconomic conditions and the IT demand to persist during the first half.

However, we expect the business conditions to improve in the second half, driven by strong seasonality of the set businesses and increasing mix of various strategic component products. Along with our efforts to secure profitability of each businesses in 2016, we'll also focus on reinforcing mid- to long-term business competitiveness including new business areas.

For DRAM, as adoption of high-density and high value-added products such as DDR4 and LP DDR4 in major applications increased, we plan to focus on reinforcing the differentiated product structure, based on our successful 20-nano process. In addition, we'll further solidify the dominant position in DRAM technology through the introduction of 10-nano class process.

For NAND, we will expand our superior product competitiveness and technological leadership by expanding major production of the third-generation Vertical NAND as the only company in industry to do so. We'll also lead the growth of high-density storage market to strengthen the foundation for the mid- to long-term growth.

For System LSI, we'll secure a stable profit foundation by diversifying foundry customers, and by expanding associated product line ups, based on our 14-nano process competitiveness. We expect to continue to staying on leadership path on technologies, by bringing 10-nano process within this year. In addition, we'll continue to strengthen competitiveness of this LSI products such as Bio-Processors and CIS products.

For the OLED business, we expect to secure mid- to long-term growth capabilities in 2016 by enhancing technology level and productivity of the flexible display and by expanding new applications including transparent, mirror, VR, automotive and OLED for personal computers.

For our IM business, going beyond differentiation of hardware, we'll focus on reinforcing software competitiveness with a new R&D organization dedicated to the development of software and services. In addition, we'll continue to focus on strengthening our wearable products such as watch and VR.

For our TV business, we will reinforce our premium market leadership with our SUHD TV, which is the only TV with eco-friendly quantum dot technology in the world. And we plan to lead the era of Smart Home through our Smart TV with Smart Hub that provides connectivity with other devices with the controlling and monitoring functions.

Internet of Things, we not only have a portfolio of cutting-edge devices that covers the whole spectrum of mobile, IT, TV, and consumer electronics, but also have innovative components such as flexible OLED and IoT exclusive chip solution, we call ARTIK as well as powerful IoT platform such as SmartThings.

Based on our competitiveness of the overall ecosystem, we plan to focus initially Smart Home and Smart Health, which have high growth potential.

Now, I'd like to comment on our capital expenditure. The total capital expenditure for 2015 was KRW 25.5 trillion; KRW 14.7 trillion was for semiconductor, and KRW 4.7 trillion was for display. The rest was used for smartphone production line and the consumer electronic complex in Vietnam, as well as building R&D complex in Seoul.

The capital expenditure in display business was lower compared to the plan, due to the timing of the investments. We cannot provide any guidance on 2016 capital expenditure at this time, as it has not been decided yet. As I mentioned earlier in my speech, we are reviewing various investment opportunities.

Before the presentation of each business unit, I would like to share several data points, as I always have done for key business areas for your reference.

For DRAM, in Q4, our bit growth declined low-single digit and we saw a high-single digit decline of DRAM ASP. For NAND flash in Q4, our bit growth came in mid-teens and ASP declined low-teens.

For first quarter 2016, we expect the markets DRAM bit growth to be low-single digit and we will probably outgrow that slightly. For NAND flash, for market bit growth in Q1, we expect again low-single digit and our bit growth will certainly outgrow that of the market.

For 2016, for the whole year, the DRAM market bit growth, we expect mid-20%, and our bit growth is expected to grow align with the market. NAND flash, for 2016, we expect market bit growth would be around 40%, and we will outgrow that of the market growth.

For our mobile businesses, our total handset shipment in Q4 was 97 million units and we had tablet sales of 9 million units. The mix of the smartphone within total handset was roughly mid-80%. The blended ASP for our mobile business in Q4 was mid-\$180.

For Q1, we expect our handset shipment as I indicted earlier, we expect to see small decline, as well as tablet, we expect to see a decline. The mix of the smartphone to total handset probably will remain flat from the Q4, but we do expect to see our blended ASP for handset to increase in Q1.

For our LCD TV, in Q4, we shipped 16 million units, but Q1, we expect to see sizable decline. For the year in 2016, we expect to achieve the TV set sales to increase somewhere around mid-single digit. And now, I will turn the conference call over to the gentlemen from the business units; starting with semiconductor.

Sewon Chun

Good morning, this is Sewon Chun from the Memory Marketing team. I am going to be present our business result for the first and the market outlook for the next quarter. In Q4, for DRAM, although PC demand remained weak, mobile demand increased driven by smarter launches and overall content growth. And high-density server demand remained solid, mainly driven by data center. Although, earnings decreased due to weak demand from certain applications, we're focused on strengthening our market leadership by reinforcing cost competitively

with 20-nanometer migration and by actively responding to demand for high-value added products such as DDR4, LPDDR4, with profit focused to product mix.

For NAND, mobile storage demand increased due to high-density smartphone launches and content growth in all segments. Also, demand for servers and products increased driven by SSD attach rate growth in PC and high-density enterprise SSD market growth. While we secured the profitability by expanding the solution products such as SSD/eMCP, we reinforced the product competitiveness by mass producing third-generation V-NAND and by expanding 10-nanometer class process migration.

Next, I will comment on the memory market outlook and our strategy for Q1. For DRAM, even under weak seasonality, we expect the server DRAM demand to remain solid mainly driven by datacenter and mobile demand to increase with flagship smartphone launches from major mobile companies.

For Samsung Electronics, with flexible application led strategy, we have reinforced competitiveness by expanding 20-nanometer process migration and by increasing sales of high value-added and differentiated products such as 8Gb DDR4, LPDDR4. For NAND, although demand is expected to decrease under weak seasonality, the market condition may vary by each application due to overall SSD content and attach rate growth as well as high-density mobile product launches.

We will continue to secure cost competitiveness by expanding third generation V-NAND supply and 14-nanometer process migration. Also, we will make our best effort to improve earnings by actively responding to demand for high value-added solution products such as enterprise SSD and high-density mobile storage.

Despite the expected uncertainties in year 2016 including potential IT market slowdown, we expect a solid overall demand driven by content growth in each application with high-density server demand increase and smartphone content growth.

For DRAM, we are focused on maintaining our market leadership rather than own growth and continue to expand the sales of high value-added and differentiated products. Also, we will concentrate on strengthening stable business long-term profit generation basis through expansion of 20-nanometer migration and development of 10-nano class process.

For NAND, we will lead high-end storage market growth such as enterprise SSD and high-density mobile storage market. And we will reinforce our market leadership by strengthening product competitiveness including ramping up of third-generation V-NAND.

Now moving on to the System LSI business. In Q4, earnings improved driven by increase in 14-nanometer foundry supply despite a slow seasonal demand for SoC and LSI. In Q1, we expect earnings to be affected by slow mobile demand under weak seasonality. However, we will reinforce our leadership in process technology and product competitiveness by starting mass production of second-generation 14-nanometer process and by supplying to new premium smartphones.

In 2016, despite these uncertainties in the global economy and IT demand, we will focus on retaining growth momentum and strengthening the foundation for long-term growth through diversifying customer base and product line up. Thank you.

ChangHoon Lee

Good morning. This is Chang Hoon Lee from the Planning Department of Samsung Display. For LCD panel, in the first quarter, our earnings declined Q-o-Q due to decreased shipments of large sized panels and continued ASP decline.

In the first quarter, we expect a price competition among panel makers to intensify further due to slowdown of set demand from continued exchange rate fluctuations in the emerging markets. And, overall, oversupply from a decrease in demand under weak seasonality and an increase in the industrial capacity. In response to these tough market conditions of the first quarter, we will focus on cost reduction and inventory management as well as expansion of the customer base.

For OLED panel in the fourth quarter despite positive factors such as increased shipments and line utilization ratio, our earnings slightly decreased Q-o-Q due to ASP decline and increased shipment portion of mid-end to low-end display panels.

In the first quarter, although we expect competition among panel makers to intensify further due to slowing growth of the smartphone market, we will make the best effort to reinforce cost competitiveness and customer base and to increase the utilization ratio – the line utilization ratio.

Now, I'd like to present the outlook for the display market and our core strategies in 2016. For LCD panel, while we expect overall shipment area to increase Y-o-Y, it seems that total shipments may decrease. Furthermore, we expect the industrial capacity to increase Y-o-Y. We will appropriately respond to these tough market conditions in 2016 by continuously monitoring the market condition as well as by focusing on cost reduction and inventory management. For OLED panel, we expect the smartphone market growth to slow down Y-o-Y and that growth will come mostly from the emerging markets and low-end markets.

Under these circumstances, we'll make effort to diversify product lineups and expand customer base. Furthermore, we'll reinforce our market and technology leadership through technological improvement and mass production of flexible displays, which is our mid-term to long-term growth engine. At the same time, we'll strive to secure new growth engines by reinforcing development of new applications such as transparent, mirror, VR, and automotive display. Thanks for listening.

KyeongTae Lee

Good morning, everyone. I'm KyeongTae Lee from the Mobile Communications business. I would like to present the fourth quarter business result, and our future outlook for the IT & Mobile Communications business.

As for the Mobile Communications business, in the fourth quarter, market demand for smartphone and tablets grew Q-on-Q in line with year-end seasonality. However, our revenues slightly decreased from the previous quarter as a result of inventory adjustment to accommodate the slowdown of market growth and increased portion of mid-to-low end smartphone sales.

Profit of the IM division also slightly reduced Q-on-Q mainly because of seasonally increased marketing expenditures. As for our smartphones, our product mix somewhat worsened with the shipment growth of mid-

to-low end models mainly in the emerging markets including Southeast Asia and Latin America.

On the other hand, our tablet shipments and revenue grew Q-on-Q thanks to strong sales of the Galaxy Tab A and Galaxy Tab S2. For our network business, both revenue and profit improved compared to the third quarter driven by the expansion of overseas LTE business.

Now, let's turn to the outlook for the first quarter of 2016. The market demand for smartphone and tablet is expected to drop Q-on-Q under weak seasonality. In response, we plan for a global expansion of the 2015 edition of Galaxy A smartphone, which we initially launched in China last December.

Brand new Galaxy A7 and Galaxy A5 offer a trendy and sensible design along with differentiated service and functionality, which can be found in our flagship models. Also, these two devices support Samsung Pay, which is simple, safe, and virtually anywhere mobile payment service.

Our smartphone shipments for the first quarter is expected to slightly decline from the previous quarter under a weak market seasonal condition as well as a discontinuation of our long-standing mid-to-low end models. However, with improved product mix and newly launched models, we expect our revenue and profit to slightly increase Q-on-Q.

Now, let me discuss the outlook for the year 2016. As for the Mobile Communication business, we forecast a single-digit growth for the smartphone and tablet market this year. Accordingly, we believe competition among smartphone players will intensify even further as a consequence of market growth slowdown. In response to such challenging market circumstances, we will give our full efforts to increase our smartphone shipments and sustain a double-digit margin by continuously strengthening our product capability and maintaining streamlined product portfolio.

For premium smartphones, we will lead the premium market and strengthen our position leveraging our top-notch technology innovation. In the mid-to-low end segment, with optimized lineups based on competitive products we will expand our shipment volume while improving our profitability.

And we will also expand our tablet and wearable devices contribution to the overall business performance. In addition, we will continue to develop and provide service like Samsung Pay that offer practical value to our customers in order to drive sales growth of our devices.

As for our network business, we will aim to achieve revenue growth based on our LTE business experience and technology excellence. Lastly, we will actively seek for new business opportunities for the future growth while making a continuous effort to deliver Samsung's new value and experience to our customers through acceleration of software and service innovations.

Thank you for your attention.

Yoon Lee

Good morning. This is Yoon Lee, Senior VP of Visual Display, Sales and Marketing Team. I would like to present the market conditions and our results for the fourth quarter. In the fourth quarter 2015, TV market grew

substantially from the previous quarter driven by increased demand during the year-end peak season. However, global demand slightly decreased compared to same period last year due to slower consumer confidence from major emerging markets, including South America, CIS, and Eastern Europe. We actively responded to Black Friday demand in North America through successful promotion activities of our premium flagship line up, SUHD TV and expanded sales of premium products including UHD and Curved TV. As a result, our overall earnings improved from the previous quarter as well as previous year.

In Digital Appliance business in the fourth quarter, the North American market continued its growth momentum, but in emerging markets the demand decreased since the consumer confidence dropped due to slow market growth in China, a decline in price of raw materials, and impact of weak exchange rate. Under these circumstances, we expanded sales of premium innovative lineups such as Chef Collection Refrigerator and Active Wash washing machine, primarily in the North American market. As a result, our earnings improved compared to previous quarter and the previous year.

Next, let me brief you on the outlook for 2016. Due to the impact of sporting events such as Brazil Olympics and EURO Cup, we anticipate a slight increase in TV demand, while consumer preference for larger inch TVs and increasing UHD contents continue.

However, we expect to see limited TV demand growth as economic downturn risk exists due to currency headwinds in major emerging countries. In response, we plan to actively expand SUHD TV by further enhancing picture quality and design of the current SUHD TV. Also, we will focus on acquiring profitability by continuously increasing sales portion of Curved TV and large inch TV.

Meanwhile, we are going to introduce new Smart TV lineups with a singular remote control and singular access which offers smart user experience through consumer-centric user interface. Furthermore, anti-SUHD TV lineups will be kept with Internet of Things hub feature and become the central world of Smart Home by conveniently offering connectivity to home IoT gadget. While the year 2016 is expected to be difficult, as economic recession risk from emerging countries increases, we aim to improve profitability by further strengthening premium product sales, optimizing lineups and enhancing efficiency.

During the first quarter, we expect TV market demand to decrease from the previous quarter, as TV market enters seasonally weak period after the year-end peak season. However, we will focus on securing profitability by expanding UHD and Curved premium product sales and by successfully introducing our new lineups, centering on SUHD TV.

As for the Digital Appliance business in 2016, while U.S. market demand remains solid, we forecast limited Digital Appliance market growth due to growing global foreign currency risk. In response to this, we will actively seek to improve performance by introducing innovative products such as Active Wash and by launching new premium products including Family Hub Refrigerator. Along with these, we will enhance competence of our B2B business, which includes system air conditioners. Thank you.

Robert M. Yi

Thank you. That's the end of our prepared presentation. Now, we'll take the – move into Q&A session. As we had done in several quarters in the past, we will use the consecutive translation for Q&A. Okay. So why don't

we start the Q&A session. Thank you.

< Q&A >

Operator

Now, Q&A session will begin. [Operator Instructions] The first question will be provided by Se-Chul Lee from NH Investment & Securities. Please go ahead sir.

<Q - Se-Chul Lee>: My first question is about your outlook on the 2016 Samsung – excuse me, the 2016 DRAM market outlook in terms of demand and supply. There has been some concern with the weak demand, especially in the first quarter. For the full-year 2016 what's the company outlook on the industry, the market situation of DRAM, especially the demand and supply side? And what is your strategical approach to this?

<A>: Our overall 2016 market outlook in terms of the demand side, we are expecting the said growth rate to decrease or to be lower than 2015 growth rate. But on the other hand, we are expecting the content in servers and mobile devices to increase and that would also be a plus factor in terms of demand in 2016.

On the supply side, our industry outlook in 2016 is that with more producers migrating on to the 20-nano technology, there will be – this will be an increasing factor on the supply side versus 2015. But the supply situation will differ for each application and product depending on how the 20-nano migrations are going to unfold. And also as the difficulty of the process has become more difficult or more – increases this would also have an impact on the supply side. So we think that as the year unfolds, overall demand and supply situation will stabilize versus the early part of this year.

<A>: Also in terms of our strategy, we will be focusing on our 20-nano migration and also migrating further as well as focusing on the DDR4, and, also, mobile-related applications. And we will be able to grow our supply, we're planning, at market growth levels. This year our main focus will be on profitability rather than increasing volume. So our main approach this year on the DRAM side is to maintain our leadership and also continue an operation that is sustainable and profitable.

Operator

The following question will be presented by Nicolas Gaudois from UBS. Please go ahead, sir.

<Q - Nicolas J. Gaudois>: Yes. Good morning. The first question is on the OLED side. Considering the slowdown we're seeing in high-end smartphone growth, we should expect potentially a pull-in of plastic OLED demand in order to have innovation in form factors. When, in that context, will we see Samsung Mobile releasing its initial product? And when for foldable displays? And when can Samsung Display serve potential large scale requirements from other high-end smartphone customers as well? And then, I have a follow-up on semi. Thank you.

<A>: To answer your question regarding – first of all, the flexible OLED products, as you know, we are already mass producing flexible OLED products and it is already being used in several smartphone markets – smartphone models that are already on the market. Regarding foldable OLED, that development process on our

end is being carried out smoothly according to our schedule. However, the timing of mass production or product launches, that would depend on the customers and we are in the process of discussing that with customers. So that would depend on the results of the consultation that we have with customers.

<A>: And as far as the flexible OLED is concerned, already we are supplying that to not only captive, but also external customers. And various companies are using and producing products that use the flexible OLED we supply.

<Q - **Nicolas J. Gaudois**>: Okay. Thank you. And a follow-up question is on LSI. You alluded earlier to one of more process flavors for 14-nanometer plus your second generation for the main process, as well as customer diversification. So if we look at the application fields, on top of application processes and integrated modem and application processes, we, I guess, see incremental demand this year for GPUs, semi-custom graphics for game console, the networking. Is that the case? And is this sufficient to offset the possible loss of market share with your largest application processor, external customer to support profitability for LSI this year? Thank you.

<A>: The System LSI in addition to our mobile application business already has been preparing intellectual property as well as business infrastructure on other application end such as network-related businesses, automotive applications as well as other multiple new applications. So this year our plan and focus is to not only increase the market share with existing mobile application customers but also focus on increasing the market share in these other applications such as network, automotive and other applications.

<Q - **Nicolas J. Gaudois**>: Right. But to be clear, automotive is not 14-nanometer obviously. So specifically for 14-nanometer logic process on the FinFET side. Apart from networks what are the applications you see expanding?

<A>: Yes. Because the 14-nano is relatively a new product, when I meant automotive, I meant that we are in the process of being assessed and qualified for automotive applications in the future. So that trial process with potential customers has already started. In terms of 14-nano, other applications other than mobile, we are developing, for example, game or wearable as a target application.

<Q - **Nicolas J. Gaudois**>: Thank you.

Operator

The following question will be presented by Jong-Woo Yoo from Korea Investment & Securities. Please go ahead, sir.

<Q - **Jong-Woo Yoo**>: I have one question, first about the IM side, the mobile side; and then, I'll ask another follow-up question or another question regarding with the DP side. First on the IM side, mobile side; last year, you were able to introduce new models on the mid-to-low end side, which have positive performance results on both volume, shipment, as well as profitability. Looking into this year, we're expecting other companies to follow suit and become more active in the mid-to-low end part of the market, especially the Chinese companies. I'm wondering, my question is, how does Samsung plan to differentiate itself in the mid-to-low end space versus especially other companies, the Chinese makers?

<A>: As you mentioned, while the entire smartphone market itself is weak in terms of growth, especially within

that, the mid-to-low end segment is where there is more growth relatively speaking versus the entire smartphone segment. But also, as you mentioned, we are expecting competition to get more fierce in this segment as well. Our plan and our response is to continue to launch new editions to the Galaxy A series and Galaxy J series, which we introduced last year with very positive market responses and by introducing new editions to the Galaxy A series and Galaxy J series this year to enhance our competitiveness in the mid-to-low end segment. More specifically, the Galaxy A series 2016 edition will have a design that uses both glass and metal. So it will be a very attractive design, also it will increase the specifications on the camera and memory side, also add some new features such as the Fast Charge and Samsung Pay, which will all enhance the usability of the 2016 Galaxy A series. The Galaxy J series also will focus on enhancing the key features that the customers and the users really focus on, for example, screen as well as battery specifications. And by introducing these new editions to the Galaxy A series and Galaxy J series this year, we will focus on continuing to maintain our competitiveness in the mid-to-low end segment.

<Q - Jong-Woo Yoo>: On the display side is that, even though you said that this year's CapEx plan has not – have been decided, I'm assuming that your OLED-related CapEx spending would have to increase quite significantly this year. Could you at least give us some more color on your OLED-related CapEx spending plan? Especially, can you divide that into the mid-size, small-size versus the large-size OLEDs?

<A>: Regarding our CapEx on the mid-size to small-size – mid-size and small-size OLEDs, we do expect to have investments related with the Galaxy A3, but we have not yet been able to finalize the exact size of our facility investments related with Galaxy A3 this year. But our basic policy and approach is that, we will be making these investments ahead, so that our capacity expansions would be leading in order to maintain our competitive advantage on the display business and also will respond flexibly to market and customer demands. I think you've also asked us about the large-size OLED-related investments. Our current activity related with the large-size OLED is to explore various manufacturing and mass production methods on the R&D side to find the optimal mass production method that will give us the strong cost competitiveness. We're also looking into the marketability of large-size OLEDs. So in addition to all of these manufacturing-related R&D efforts, we are also talking to customers to identify potential market needs.

Operator

The following question will be provided by Young Park from Hyundai Securities. Please go ahead, sir. Mr. Young Park, please go ahead, sir. The next question will be given by Seung-Hyuk Lee from Korea Investment & Securities. Please go ahead, sir.

<Q - Seung-Hyuk Lee>: I have two questions related with the CE, specifically TV set business. First is, even though fourth quarter, the TV demand growth was relatively weak, it seems that your TV set business profitability has improved quite significantly. I'm sure that the decline in the panel prices have helped, but were there any other major factors that explained the significant improvement in your TV set profitability in the fourth quarter? The second question is about your 2016 product mix strategy. Since already you have super UHD Curved and UHD TVs out there, I don't see much more room for improving or enhancing your line up on the TV side this year. What strategies do you have in terms of further improving your product mix on the TV this year?

<A>: To answer your first question and give a bit more detail about our fourth quarter TV performance or results, actually it is – the improvement in the profitability can be explained by several factors. One is that, we

were able to very actively and successfully respond to the peak seasonality in the developed markets, for example, the U.S. Black Friday demand. Also, we were able to launch very successful promotions with major distributors in these development markets. And this all helped in increasing the share or mix of our premium product line-up such as UHD -Curved and UHD TVs. Also, even though the growth markets, developing markets had various difficulties in terms of weak currency, we were able to leverage our strength in the supply chain management side and enhance our operational efficiency. But actually the growth markets contributed to the better performance or profitability of our TV business in the fourth quarter.

<A>: Well, regarding the 2016 product line up, our focus is to, first of all, make our SUHD TV product the top and most premium product offering out there in the entire TV market. As you know, we have many strengths in SUHD TV itself. Our quantum dot technology is environmentally friendly. Also, we offer the industry's best picture quality as well. The SUHD TVs that we will be introducing this year also has improved, for example, the color gamut as well as brightness, so that it will be the best display in terms of TVs in the market available and we will make this very clear and strong positioning. Also we are focusing on offering a differentiated consumer and viewer experience. For example, we will be featuring a one remote, one access point concept where our remote and access point will be the point of accessing all content for the viewers. So it will be a smart as well as a very seamless and best viewer experience that will differentiate our TVs from other TV offerings. We will also be focusing on making our SUHD the focal point of IoT service. As you know, IoT is a very hot topic in the industry. We will be offering an IoT hub service or feature on all of our SUHD full line up, so that the TV will be the focal point and the hub for the home IoT environment.

Operator

The following question will be provided by Marcus Shin from Goldman Sachs. Please go ahead, sir.

<Q - Marcus Shin>: I have two questions. The first question is about Samsung Pay which you launched last year with very positive market responses. Personally, I'm also very – I'm also using Samsung Pay and I find it very convenient. You've mentioned during your presentation that you plan to expand Samsung Pay on to more models and more regions this year. Specifically, which models and which areas and which timeline do you expect to roll out Samsung Pay? Also, have you found Samsung Pay to actually have a positive effect or a positive impact on the sales of Samsung handsets?

<A>: Regarding the models where the Samsung Pay will be supported, as you know currently available – Samsung Pay is currently available on our flagship models S6, S6 Edge and the Note 5. And the 2016 edition, Galaxy A5 and Galaxy A7 also – already support Samsung Pay. In terms of regional rollout, we launched Samsung Pay in Korea and the U.S. last year. We will continue to roll out to regions starting with China, the UK and Spain this year, and also continue to increase the regional coverage of Samsung Pay. As you mentioned, the consumer response in the Korean and U.S. market regarding Samsung Pay was very positive, and, yes, indeed, it is positively helping and impacting our smartphone sales. So we will continue to roll out Samsung Pay as a global service, so that more consumers around the world can experience a differentiated service through Samsung Pay.

<Q - Marcus Shin>: On the semiconductor side, I have a question regarding the packaging. Your packaging technology roadmap recently, your competitor has come out with new packaging technology info and it's getting a lot of attention in the market. What is your roadmap regarding packaging?

<A>: As you know, already we are mass producing our TSV package memory product. And in terms of packaging technology, we pride that we have the industry's best packaging technology. In addition to the TSV, we are continuing to improve and enhance our PoP packaging, so that we provide not only a thinner thickness so that the products are thinner, but also that we are able to enhance our cost competitiveness. We continue to develop our technology and packaging processes, so that we are able to meet the customers' demands with the optimized as well as differentiating packaging offerings so that we not only have thin packaging, but also be able to achieve it with less investments as well as material cost.

Operator

The next question will be given by Ricky Seo from HSBC. Please go ahead, sir.

<Q - Ricky Seo>: I have two questions regarding the V-NAND product. V-NAND, is it possible for you to give us a rough figure of the share of V-NAND in your 2015 revenue as well as what you expect V-NAND to contribute in your revenue in 2016? Also, some say that because V-NAND versus 2D NAND has lower margins. The V-NAND itself is actually lowering your overall NAND margin mix. When do you think the margins on the V-NAND side would become similar or even higher than your 2D NANDs? And does that – is that function, for example, of the mix of 48-stack V-NAND having to take up a certain portion of your V-NAND production?

<A>: Well, with the 3D NAND production and demand increasing on both sides, actually the 3D NAND has, as of last year, accounted for more than half of our SSD revenue. We believe that the 3D NAND business will continue to grow in this year as well as we're looking at the customers and the applications that we have already been designed into. As our 3D NAND production continues to ramp up, this also is a positive factor on our cost competitiveness and our cost competitiveness on the 3D NAND will continue to improve similar to planar NAND level. We will also this year focus on increasing the revenue, for example, by developing and focusing on the increase of the enterprise SSD applications.

<Q - Ricky Seo>: I have a question about your future strategy. It seems even though you are currently focused on the existing foundries, the market at least in the next three years to four years expected to move – shift towards more of the mid-to-low or analog and specialty family demand. And so I am wondering strategically what is your approach and what preparations are you making? Are you considering or have you considered, for example, starting 8-inch wafers? If you have, what has kept you from doing it already? What are the major obstacles if you have considered 8-inch in terms of moving into, for example, analog or specialty foundry businesses?

<A>: Currently, our foundry process is focused, as you know, on mobile applications. And so currently our focus is to continue to maintain that focus and expand mobile applications and to diversify our customers on those applications. Regarding 8-inch, we already do have the technologies, we have been trying to expand customers, but our major approach and strategy on the 8-inch is to respond to market demand and market situation, so that we are able to supply products when the market require them.

Operator

The following question will be provided by Min-Seong Hwang from Samsung Securities. Please go ahead, sir.

<Q - Min-Seong Hwang>: I have a question on the System LSI business. During your presentation and answer,

you have mentioned you have plans of mass producing 10-nano before the end of this year. Is this for captive customer use or do you also have large external customers in mind when you talk about 10-nano mass production by end of year? And considering that it has not been long since you've mass produced 14-nano, what will be the impact of this in your profitability in terms of development cost as well as depreciation?

<A>: Please understand that it's difficult for us to disclose any specifics related with the customers, but as we mentioned, our 10-nano plan is moving ahead smoothly. The target is to start mass production in fourth quarter. The pursuit of the 10-nano technology is a part of our focus on maintaining technology leadership in this space. Our current focus also includes the ramp-up of our 14-nano technology and the major focus to enhance the profitability of our 14-nano is to diversify our customer base.

Operator

The following question will be presented by Young Park from Hyundai Securities. Please, go ahead, sir.

<Q - Young Park>: I have one question related with the mobile side, the other related with your semiconductor capacity. First, the mobile-related question is the strategical implications of your recent organization change. You've there was a change of the Head of the Mobile business. You've also done some organizational changes. What is the implication of all of this change in your 2016 strategy, as well as your mid- to long-term strategies on the mobile business?

<A>: As you mentioned, we had some organizational changes at the end of last year, major highlights being that we've actually split our development organization into division one and division two, so that we split the hardware development from the software development. Also on the sales side, we have launched a separate sales organization in charge of wearable sales, which would include smartwatches, VR and other devices. The basic intention behind this organizational change is to put more focus on innovation of software and services, while we continue to differentiate our hardware. We will like to use this new organization in order to accelerate innovation on the software and service side, and also to focus on developing and identifying new business opportunities such as Smart Health or Cloud businesses, which will give us the growth engines for future. Also, we in terms of the long-term, longer term or mid- to long-term businesses, we would flexibly respond to the market which has been rapidly changing, in order to continue to maintain the foundation for sustainable growth.

<Q - Young Park>: My second question was about your capacity plans this year and also going forward. I fully understand when you say your capacities will be operated flexibly, given that 2016 demand is so quite uncertain, but at least according to your current plan on the DRAM side, what is the share of 18-nano, 1x at the end of this year according to your current plans? On the NAND side, are you expecting to start the new Pyeongtaek facility in 2017 with NAND capacity? On the System LSI side, will the equipment for Phase 2 fab 17 be coming in this year?

<A>: Regarding the 1x nano share, it is difficult for us to give you a number for the reasons that you've mentioned, but I can give an updating that we are on plan and on track. We will continue to maintain our market and industry leadership as we had done on the 20-nano product. And the 1x nano, we believe will continue to enhance our product competitiveness. Regarding the Pyeongtaek campus, it's still doing its groundwork, and plans for what products or when to mass produce has not been decided yet. But we will respond to customer demand as well as market situation flexibly.

<A>: Regarding the fab 17 on the System LSI, actually the equipment for fab 17 is currently being co-developed, jointly developed. So the timing of commercial operation will depend on when this equipment development is completed as well as customer demand and market situation.

Operator

The following question will be given by JJ Park from JPMorgan. Please go ahead, sir.

<Q - Jung-Joon Park>: First, I have a question regarding the impact of currency exchange rates on your business and profitability. During the third quarter conference call, you mentioned that due to the weak won or increase of the Korean won versus dollar exchange rate, there was a positive impact on the parts business by about KRW 800 billion. This time, you are saying that because of the currency, strong won, that there was a negative impact by about KRW 400 billion. But actually when you look at the exchange rate, even though there are other exchange rates versus the Korean won other than the dollar. Actually, during the fourth quarter, the Korean won, there was only about a move of about KRW 10, which is relatively small currency exchange rate difference, versus the KRW 800 billion versus KRW 400 billion impact on your profit, third quarter versus fourth quarter. So, are there other factors other than the KRW 10 movement in the exchange rate, that explains the impact due to currency rate changes?

<A>: As you mentioned, our business itself, consumer electronics deal side only in dollars but also in multiple currencies around the world. So as you mentioned there are other exchange rates, Korean won versus other currency exchange rates to consider. As you mentioned, if you just look at the Korean won versus U.S. exchange rate, in the third quarter, Korean won turned weak by about 6.7%, but the value of the Korean won in the fourth quarter actually increased by about only 1%. But on the other hand, during the fourth quarter, the Korean won was strong against the euro; it appreciated by 2.4%. It was also – it appreciated by about 10% versus the Brazilian real. So, other currencies did impact the fourth quarter earnings. So, that's one factor. By contrasting the third quarter, the Korean won was weak not only against the dollar, but also the euro, pound, and even the Chinese yuan or renminbi. Also, another factor to highlight related with exchange rate and currencies is that while the strong Korean won or this –the weak Korean won in the third quarter had a positive impact on the parts side of our business, the component business, the negative impact of the strong won during the fourth quarter impacts mainly our set business, and because most of the emerging market currencies were relatively weak versus the Korean won in the fourth quarter.

<Q - Jung-Joon Park>: I have a question. My second question is about the DRAM and your outlook especially on the DRAM prices. It seems the DRAM market itself is in a downturn market. But what do you think needs to happen for the market to hit an inflection point? For example, for prices to stabilize and the downturn market to turn around, do we need to wait until the end market itself turns around or do you think that with lower DRAM prices, this could drive an increase in content growth and that will be able to provide an inflection point on the DRAM market? The reason I'm asking this question is because, even though the supply growth has sort of decelerated or has been picking off, the prices – DRAM prices have continued to go down more than expected. And so, what do you think specifically would be an inflection point sufficient to turn around the DRAM prices?

<A>: As you mentioned, the DRAM market has changed overall versus the past. The major change being that the sources of applications, the sources of demand have itself become much more diverse. PC for example, which used to be the majority of DRAM demand, now accounts for only about 20%, whereas their other applications that drive demand in the DRAM market. And we think that the price decline – with the price curve,

or the decline will differ from application to application. For example, on the mobile side, because it's a sliding down scheme, the prices on the DRAM for mobile applications will follow that curve, whereas other applications, each application will show a different price declining trend, depending on specific applications.

So, that would mean that for each supplier, the situation, the prices, and the profitability will be a factor of not only their cost competitiveness, but also, how well they meet specific application demand. Given that industry situation, our approach is to maintain a certain level of profitability, but also be able to maintain competitiveness in specific application demand going forward.

<A>: Even though the conference call has been going on for some time, we still have many people waiting to ask questions. So perhaps, we will be able to entertain three or four more people before closing the call.

Operator

The following question will be presented by Peter Yu from BNP Paribas. Please go ahead, sir.

<Q - Peter Yu>: My first question goes to the System LSI business. Even though your fourth quarter revenue increased quite significantly versus third quarter, your operating margin has remained flat quarter-on-quarter. What is the specific reason of your profitability being low despite the growth in revenue? And in 2016, what do you expect to happen to your profitability and what would you think in the mid- to long-term would be a normal level of profitability for the LSI business? Also, you mentioned that the CapEx on the semiconductor side decreased in 2015. Specifically what part of the semiconductor business was the main reason for the decrease in CapEx last year?

<A>: Regarding our System LSI fourth quarter revenue and profitability that you asked about, our revenue in fourth quarter grew significantly, especially thanks to the increase in supply of our 14-nano foundry operation, but we actually took some one-off costs in the fourth quarter too in order to prepare for 2016 operations. For example, we cleared out some long-term inventory, and so that one-off costs in fourth quarter kept our profitability from increasing in line with our revenue. In 2016, even though there are many uncertainties in the market, we believe that by stabilizing our 14-nano operation, and by diversifying our customers, we will be able to grow at similar levels as we saw in 2015.

<A>: And to clarify the second question which was about semiconductor CapEx decreasing, actually, that was a reference to what we mentioned in the third quarter that the entire company enterprise level, Samsung entire company level, CapEx will be KRW 27 trillion, which was mentioned during the third quarter conference call. Actually that decrease is not attributed to the semiconductor. That was because the display side CapEx was less than expected.

<Q - Peter Yu>: And a follow-up question was, then why was display CapEx less than expected and that was because the timing of the CapEx execution changed? My second question related with the TV side, is that while highlighting your Super UHD TV, you emphasize the fact that it is – the quantum dot technology is environmentally friendly, specifically that its cadmium free. Is this a technology that's unique to Samsung that other competitors will find difficult to emulate?

<A>: Our environmentally-friendly or eco-friendly quantum dot technology, which is cadmium-free. As far as we know, we are the only maker who does quantum dot TVs with no cadmium included. We have already seen some Chinese companies mention that they have quantum dot technology, but according to what we have found

out, it is – these other technologies do use cadmium, whereas we don't; we are in that sense, eco-friendly. But quantum dot as a technology, the value of it or the importance of it is not only that it's eco-friendly, but that also compared to other display technologies, it provides better picture quality, in terms of supporting color gamut as well as supporting better brightness.

<A>: We will take three more questions. I would like to kindly ask that each person limits their questions to one question, given the fact that this conference call has been going on for some time.

Operator

The following question will be presented by Mehdi Hosseini from SIG. Please go ahead, sir.

<Q - Mehdi Hosseini>: Thank you. Looking at your semiconductor business, specifically in the memory, can you help us understand the mix of DRAM and NAND revenues? And also, how should we think about operating profit in the memory broken by DRAM and NAND?

<A>: First, please understand that it is difficult for us that we are not able to give you the specific breakdown of revenue in DRAM versus NAND. But DRAM is a larger share of our revenue in the memory side versus NAND.

<Q - Mehdi Hosseini>: Sure. And doesn't that imply that it is very important for your DRAM business to maintain profitability? And in that context, what are the key valuables or what are the key contingency plans in case demand weren't to pick up, in case price erosion for some of these other segments outside of PC were to continue to weaken. Is there anything that you can do with the supply – bit supply that could help you to better manage profitability of the DRAM, that could have a material impact for your overall memory and semiconductor division profitability?

<A>: Our major contingency plan on the memory business is basically to drive more memory demand, to create demand for more memory content on the device level or on the set level, not only for servers, for datacenters, but also on mobile. We believe that there will be more content being put on mobile devices, which will demand more memory and this will drive up demand for memory. That is in-line with the type of memory products that we offer, DDR4 and LPDDR4 that we started mass production. In early 2015, we continue to expand on that level, and this is where we enjoy the benefits of the increased memory content on the mobile side and other devices. Of course, as this becomes more of a mass market, there may be some price erosions there, but we believe that we will be able to compensate for any price erosion or decrease in price premium, by increasing the amount of memory, therefore, by leveraging the trend of more memory content on the device.

Operator

The next question will be presented by Doh Hyun Woo, Mirae Asset Securities. Please go ahead, sir.

<Q - Hyun-Woo Doh>: My question is related with your NAND capacity planning for this year. You mentioned during the guidance that you plan to grow NAND shipment in 2016 by about 40%. I've quenched some numbers and it seems without additional capacity expansion, you cannot meet this 40% increasing shipment NAND this year. But given that there is no further room for capacity on the Xi'an side, does that mean that you're planning on – or do you have any plans of converting any of your 2D lines in Korea to 3D?

<A>: Well, regarding our planar operation, our 2D NAND, we continued to enhance our competitiveness of our existing 2D NANDs, and we, for example, will be – we have started the 1Z nano and we'll continue to migrate and further scale down to maintain our competitiveness on the planar NAND operation. On the V-NAND, we've already started our 3D, third-generation V-NAND, and we'll continue to expand the sales of our V-NAND. And overall, the strategy is to enhance our cost competitiveness as well as product competitiveness on both the 2D NAND and 3D NAND operations.

<A>: And actually our NAND capacity overall is being managed as planned.

Operator

The last question will be given by Mark Newman from Bernstein. Please go ahead, sir.

<Q - Mark C. Newman>: Hi, thanks for squeezing me in. My question is actually on the shareholder returns. Correct me if I'm wrong, but I understood that the policy you announced in the last quarter was to return 30% to 50% of free cash flow to shareholders, which was in addition minus any risk, while that was in addition to the \$11 trillion one-time buyback -accelerated buyback program. So could you clarify that and if so this KRW 21,000 dividend for 2015 does not meet the 30% to 50% free cash flow. It's actually something like 22% of free cash flow for last year. So does that mean that it's going to be additional money for buybacks, that's in addition to the KRW 11 trillion one-time buyback program?

<A>: Our basic shareholder return policy is based on the free cash flow available. But given the fact that the key factor that impacts free cash flow is CapEx and given all of the variability and uncertainty in the market, currently, it's difficult for us to have sufficient visibility of our CapEx needs and plans for 2016 as of yet. Given that, first of all, we have announced today our plans for dividends, which is more important in terms of maintaining sustainability. And so we first of all announced the dividends, which have increased slightly versus the dividend of 2015. Additional shareholder return for 2016, we will be announcing that closer to the second half of this year as we get more visibility of our CapEx needs that is the free cash flow for 2016.

Robert M. Yi

Thank you very much. I hope you found the information helpful. This ends the conference call.