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LETTER TO THE SAMSUNG ELECTRONICS BOARD OF DIRECTORS OUTLINING VALUE ENHANCEMENT PROPOSALS

October 5, 2016 – The board of directors of Samsung Electronics Co., Ltd. (KRX stock code 005930:KS) (“**Samsung Electronics**”) was today sent a letter by Samsung Electronics shareholders Blake Capital LLC (“**Blake**”) and Potter Capital LLC (“**Potter**”), both of which are Elliott affiliates. The letter, which is reproduced below, sets out certain restructuring, capital return, investor access and governance improvement proposals for Samsung Electronics (the “**Samsung Electronics Value Enhancement Proposals**”). A copy of the letter, together with an accompanying presentation, can be found at <http://sevalueproposals.com>

Despite being an impressive leading global technology company, Samsung Electronics’ ordinary shares typically trade at steep valuation discounts (c. 30% to 70%) when compared to the company’s closest peers. The Samsung Electronics Value Enhancement Proposals are designed to address that steep valuation gap and be a basis for the sustainable enhancement of shareholder value for the benefit of all stakeholders. The key proposals include:

- **Unlocking the value of Samsung Electronics’ treasury shareholding as part of a streamlining of the Samsung group structure**
 - the key elements would comprise a demerger into a listed holding company (Samsung Holdco) and a listed operating company (Samsung Opco); a tender offer by Samsung Holdco to acquire further Samsung Opco shares; and a share for share merger, on fair terms, of Samsung Holdco with Samsung C&T (KRX stock code 028260:KS)
- **Increased capital management efficiency via a special cash dividend of KRW30 trillion or KRW245,000 per ordinary share and the ongoing return of 75% of Samsung Opco’s free cashflow to shareholders**
- **A NASDAQ listing (in addition to KRX) for Samsung Opco**
- **Corporate governance improvements**

A spokesperson for Blake and Potter said, “We see this as a defining moment and a tremendous opportunity for the forthcoming new leadership of Samsung Electronics to further advance the company’s remarkable legacy. Now is the time for real shareholder value, corporate governance and transparency improvements, which we believe will help Samsung Electronics achieve an equity market valuation that properly reflects its first-class portfolio of businesses. We sincerely hope that Samsung will seize this opportunity.”

The full text of the letter and important disclosures follow below:

October 5, 2016

LETTER¹ TO THE DIRECTORS OF SAMSUNG ELECTRONICS CO., LTD. (KRX² STOCK CODE 005930:KS) (“SAMSUNG ELECTRONICS”) – THE SAMSUNG ELECTRONICS VALUE ENHANCEMENT PROPOSALS

Your attention is drawn to the important information which is set out in the Appendix to this letter.

To the directors of Samsung Electronics:

Introduction

We are writing to you in our capacity as Samsung Electronics’ shareholders³, to put forward the restructuring, capital return, investor access and governance improvement proposals for Samsung Electronics which are outlined in this letter and the enclosed presentation (the “**Samsung Electronics Value Enhancement Proposals**”). The proposals have been designed specifically to address the issues outlined in this letter, which we see as having depressed shareholder value at Samsung Electronics over time.

Samsung Electronics has done an impressive job of building a first-class portfolio of businesses which have made it Korea’s flagship enterprise and one of the world’s most important technology companies. Despite the recent unfortunate events associated with battery cells for the Galaxy Note 7, Samsung Electronics is well-positioned in terms of market share and profitability. Its strengths in its core semiconductor, mobile, display and consumer electronics businesses are admired by consumers and investors around the globe. The founding family and management of Samsung Electronics in particular deserve to be applauded for these achievements.

At the same time, however, Samsung Electronics’ shareholders have suffered from the long-term undervaluation of the business by the equity market. Samsung Electronics’ ordinary shares are currently trading at approximately 6 times expected one-year forward earnings ex-cash⁴, well below the valuations which have been consistently achieved by a basket of comparable peers of 11 times expected one-year forward earnings ex-cash, as detailed in the enclosed presentation⁵, and also in contrast to the 11 times earnings pricing of the KOSPI⁶ on a one-year forward basis. Simply put, the remarkable achievements of Samsung Electronics are not being properly reflected in the market’s valuation of its shares, and that problem needs to be addressed.

¹ This letter is from and is published solely by Blake Capital LLC (“**Blake**”) and Potter Capital LLC (“**Potter**”), both of which are Elliott affiliates. Founded in 1977, Elliott manages two funds, Elliott Associates, L.P. and Elliott International, L.P., with assets under management totalling more than US\$29 billion as at the date of this letter.

² KRX means Korea Exchange.

³ Blake and Potter currently hold, in aggregate, 760,218 issued ordinary shares in Samsung Electronics, representing approximately 0.62 per cent of the entire issued ordinary share capital of Samsung Electronics (excluding the 17,981,686 ordinary treasury shares (the “**Post-cancellation Treasury Shares Balance**”) which Samsung Electronics will have after cancelling all of the ordinary shares which it has repurchased in the current financial year). Elliott affiliates may now have and/or at any time in the future may, without notice to any person (other than as required by, and in accordance with, applicable laws and regulations), establish, long positions (other than the current shareholdings described) or short positions and/or may increase and/or decrease, whether fractionally or fully, the size of any long and/or short positions, in each case in respect of or related to any shares or other equity or debt securities of any member of the Samsung group.

⁴ Market capitalization of Samsung Electronics as at October 4, 2016 post deduction of cash and cash equivalents, short-term financial instruments and short-term marketable securities, in each case as of June 30, 2016.

⁵ See slide 12 of the enclosed presentation.

⁶ The Korea Composite Stock Price Index.

We are aware of various public commentaries, including those of a number of international investment banks, on the options for streamlining the Samsung group. Our purpose in publishing the Samsung Electronics Value Enhancement Proposals is to allow their full and proper evaluation by all concerned. We believe that, if effected, they would bring significant and sustainable benefits to all Samsung Electronics' shareholders (retail, institutional, domestic and international), as well as to Samsung Electronics' management and other stakeholders.

We see this as a defining moment and a tremendous opportunity for the forthcoming new leadership of Samsung Electronics to further advance the company's remarkable legacy. Now is the time for real shareholder value, corporate governance and transparency improvements, which we believe will help Samsung Electronics achieve an equity market valuation that properly reflects its first-class portfolio of businesses. We sincerely hope that you will seize this opportunity.

The Samsung Electronics Value Enhancement Proposals

Rationale – addressing key value-sapping issues

In our assessment, the Samsung Electronics Value Enhancement Proposals will deliver better capital returns, better corporate governance, and enhanced shareholder value, for all Samsung Electronics' shareholders – whilst simplifying, and retaining the founding family's controlling interest in, the current Samsung group corporate structure, for the benefit of all stakeholders.

Unnecessarily complex Samsung group structure and ongoing uncertainty around a possible restructuring

The Samsung group structure is in our view unnecessarily complex, including by virtue of the various legacy treasury, circular and cross-shareholdings. Ongoing uncertainty around a possible broader group restructuring is not helpful.

We believe that an appropriate resolution to the current uncertainty surrounding a possible restructuring of Samsung Electronics and its affiliates is needed. We foresee obvious sustainable benefits for all Samsung Electronics' stakeholders of unlocking the value of Samsung Electronics' significant treasury shareholding and forming a strong and stable corporate structure for the Samsung group, which the Samsung Electronics Value Enhancement Proposals are designed to achieve.

Sub-optimal capital management and bottom-tier shareholder returns at Samsung Electronics

Samsung Electronics is currently significantly overcapitalized and its treasury shareholding is held on its balance sheet at cost⁷. We view Samsung Electronics management's recent capital return efforts by way of the KRW11.4 trillion share buyback program (under which all repurchased shares were or are to be cancelled)⁸ as helpful and well-received by the market. However, we also

⁷ The value of the 19,010,776 ordinary treasury shares as stated in the June 30, 2016 Samsung Electronics interim accounts (1,083,090 of which treasury shares were repurchased under the recent buyback program and are to be cancelled) was KRW10,251 billion. The market value of 19,010,776 Samsung Electronics shares as at October 4, 2016 was KRW30,683 billion – a difference of KRW20,432 billion (approx. US\$18 billion).

⁸ The program was announced by Samsung Electronics on October 29, 2015. As at September 28, 2016 Samsung Electronics had announced completed share buybacks of KRW11.4 trillion (the "2016 Samsung Buyback").

believe that those efforts have clearly not been sufficient to remedy Samsung Electronics' excessive and inefficient capital structure – including a cash balance which had grown to KRW77 trillion as of June 30, 2016, as well as the remaining treasury shareholding.

As the enclosed presentation illustrates, we believe that the resulting balance sheet inefficiencies have depressed Samsung Electronics' returns on equity, which, relatively speaking, have been amongst the lowest in the sector for years. The same is true of dividend yields and dividend payout ratios.

We see no justification for the business remaining so overcapitalized. The current cash reserves far exceed the flexibility needed for future investment opportunities and for Samsung Electronics to maintain and enhance its position as a leading global business. This is especially true in light of the continuing robust free cash flow generation levels at Samsung Electronics. As for the existing Samsung Electronics' treasury shareholding, if the value of that is not unlocked as part of the group streamlining we are proposing, then your recent policy of cancelling repurchased Samsung Electronics shares should also be applied to the entire treasury shareholding, so that it is no longer a significant drag on shareholder value.

The lack of an effective international equity listing for Samsung Electronics' core operating businesses

Samsung Electronics currently lacks an effective international equity listing (over and above its KRX listing) for its core operating businesses, despite the impressive scale and global reach of those businesses. We believe that the absence of such an international listing and related lack of market liquidity has hindered investor access and held back Samsung Electronics' equity market value.

Subpar corporate governance within the Samsung group

Despite the Samsung group's achievements in building world-class companies, we are not alone in observing that the implementation of best practices in the area of corporate governance has not followed suit. For example, last year's hotly-disputed merger between Samsung C&T Corporation and Cheil Industries Inc² led to calls from other market participants for significant governance improvements within the Samsung group.

We believe that Samsung Electronics' stakeholders would benefit greatly from corporate governance improvements, including, as a starting point, the adoption of a board structure in line with Samsung Electronics' standing as a leading global business.

Key elements and specific benefits

The Samsung Electronics Value Enhancement Proposals, which are intended to address these issues, would entail certain key elements being implemented by Samsung Electronics and its affiliates on a consensual basis:

² Now renamed Samsung C&T Corporation (KRX stock code 028260:KS).

Samsung group restructuring

- Taking action to unlock the value of Samsung Electronics’ treasury shareholding, as part of a streamlining of the Samsung group structure by –
 - demerging Samsung Electronics (the “**Demerger**”) into a listed holding company (“**Samsung Holdco**”) and a separately listed operating company (“**Samsung Opco**”);
 - utilizing Samsung Holdco’s treasury shareholding to boost its ownership of Samsung Opco, by way of a post-listing tender offer made by Samsung Holdco to all other Samsung Opco shareholders, for the purchase of a portion of the issued share capital of Samsung Opco, in return for Samsung Holdco treasury shares (the “**Tender Offer**”); and
 - effecting a share for share merger, on fair terms, of Samsung Holdco and Samsung C&T Corporation (KRX stock code 028260:KS) (“**SC&T**”) with SC&T being the acquiring/surviving company (the “**Samsung Holdco Merger**”), in order to achieve further benefits for stakeholders in terms of group rationalization and control.

The Demerger, along with the Tender Offer and the Samsung Holdco Merger, would in our view be a capital gains tax efficient way of simplifying the structure of and control over the Samsung group and unlocking the value of Samsung Electronics’ treasury shareholding.

Special cash dividend and enhanced ongoing returns of capital at Samsung Opco

- Effecting a step change in Samsung Electronics’ capital management and shareholder returns, with a Samsung Opco special cash dividend of KRW30 trillion or KRW245,000 per ordinary share¹⁰ (a meaningful return of value to shareholders, building on the 2016 Samsung Buyback), and an ongoing commitment, in line with international corporate standards, to return 75% of Samsung Opco’s free cash flow to its shareholders.

NASDAQ¹¹ listing for Samsung Opco (in addition to a KRX listing)

- Increasing investor awareness of and access to the Samsung group, including by way of Samsung Electronics making a commitment to its shareholders to seek a NASDAQ listing for Samsung Opco (in addition to its KRX listing). We believe that such a listing is long overdue in light of the scale and global reach of the Samsung Electronics operating businesses, would facilitate additional international investor access, and would support further sustainable shareholder value creation.

Board improvements at Samsung Holdco and Samsung Opco

- Making long-lasting improvements to corporate governance arrangements at Samsung Electronics, including by way of the boards of directors of Samsung Holdco and Samsung Opco becoming more representative of their respective shareholder bases. Specifically, we believe that the addition to each board of at least three independent directors with suitable

¹⁰ Based on 122.70 million ordinary shares in issue (excluding the Post-cancellation Treasury Shares Balance).

¹¹ NASDAQ means The NASDAQ Stock Market.

international corporate backgrounds, and also with a view to enhancing diversity on the board as part of the changes, would be of real value to all stakeholders.

Possible further steps

We also recognize that once these key improvements have been made there could be scope for further ownership separation or minimization as between the financial sector and industrial sector Samsung group businesses, under two separate listed holding companies. This would be in line with the continuing regulatory pressures¹² on groups like Samsung to separate financial capital from industrial capital and to improve transparency, including by eliminating any residual circular holdings or cross-holdings in the group.

Independent analysts' views

Independent research analysts have commented¹³ on many of the issues which underpin the Samsung Electronics Value Enhancement Proposals:

- **“The amount of FCF should continue to rise in the next two years, in spite of rising capex. As a result, we expect share repurchases/cancellations to recur every year, in addition to rising cash dividends. Moreover, the company needs to implement another round of its ‘special’ share buyback program in the future, since its net cash balance is still rising, up 6%QoQ to Won64.9tr in 2Q16.”** – *Macquarie, July 28, 2016*
- **“One way of unlocking this value could be a holding and operating company separation... . Advantages could include: (i) streamlining management structure focused on its business prospects and less group issues; (ii) allowing greater transparency and potentially higher dividend payments to benefit the holding company; and (iii) this could involve potential gains from non-core asset disposals and revaluation of assets.”** – *Morgan Stanley, July 2, 2016*
- **“However, given very modest or even negative market expectations, we see significant rerating upside potential if the company implements better shareholder returns, either proactively or pushed by minority shareholders.”** – *Citi, October 27, 2015*
- **“We believe SEC’s significant non-operating asset value should become clear through proactive shareholder returns and the group restructuring process.”** – *Barclays, October 7, 2015*
- **“We believe that the market is giving a sizable discount to the value of its cash and investment assets which account for 44% of the current market cap due to poor capital management. Once group restructuring is close to the end, however, we think SEC will gradually increase shareholder returns via share buybacks and higher dividends, which should provide meaningful catalysts to the stock, in our view.”** – *JP Morgan, June 15, 2015*

¹² Including under relevant provisions of the Financial Holding Company Act and the Fair Trade Act.

¹³ The analysts’ views mentioned below shall not be taken to mean or imply (i) that the research reports referred to are a representative sample of all research reports on the topics concerned; or (ii) that the authors of the reports or their employing banks/brokers endorse in any way the Samsung Electronics Value Enhancement Proposals or the views set out in this letter. We have emboldened, by way of emphasis, certain parts of the original text of the analysts’ views which appear in this letter.

- “With the newly created incentive to pay out more of its earnings through dividends, all investors in SEOC [newco] would benefit. **We think, broadly rising dividend yield and valuation multiple discount on SEC’s shares (lack of transparency, cross-holding structure, lack of speed in establishing a consistent dividend policy and bloated equity base due to heavy cash accumulation) could be eliminated and set a tone to a valuation multiple expansion.**” – *Credit Suisse, January 12, 2015*
- “**If Samsung Group were to restructure into a holding company, our case studies show it would be likely to have positive share price implications.** LG Group’s value post restructuring (to a holdco) increased by 38.5% in the first six months, while SK Group’s value increased 34% immediately after re-listing as a holdco.” – *Deutsche Bank, November 3, 2014*

Conclusion

We urge each of you, consistent with your duties as directors of Samsung Electronics, to review the Samsung Electronics Value Enhancement Proposals in the light of the very real and measurable benefits which we believe they can have for Samsung Electronics’ stakeholders. We expect that a full and open review of the Samsung Electronics Value Enhancement Proposals would be welcomed by an overwhelming majority of Samsung Electronics’ shareholders.

We hope and believe that these proposals can create an opportunity for the Samsung group to send a strong signal to the market regarding its willingness to listen to shareholder concerns. The benefits of such a signal would be far-reaching, helping to earn the Samsung group the shareholder support it needs to achieve any significant long-term restructuring goals, whilst showing real resolve to address the misalignment as between Samsung Electronics’ remarkable business performance and its share price. Such leadership by the directors would truly mark a new, even more successful chapter, for the Samsung group.

Yours faithfully,

Blake Capital LLC

Potter Capital LLC

APPENDIX

IMPORTANT INFORMATION

Many of the statements in this letter are the opinions and/or beliefs of Blake and/or Potter, which are based on their own analysis of publicly available information. Any statement or opinion expressed or implied in this letter is provided in good faith but only on the basis that no investment decision(s) will be made based on, or other reliance will be placed on, any of the contents herein by others. Nothing in this letter, the enclosed presentation or in any related materials is a statement of or indicates or implies any specific or probable value outcome for Samsung Electronics' shareholders in any particular circumstance.

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The information in this letter contains 'forward-looking statements.' Specific forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and include, without limitation, words such as "may," "can," "will," "expects," "believes," "anticipates," "plans," "estimates," "projects," "targets," "forecasts," "seeks," "could," "would" or the negative of such terms or other variations on such terms or comparable terminology. Similarly, statements that describe any objectives, plans or goals of Blake and/or Potter are forward-looking. Any forward-looking statements are based on the current intent, belief, expectations, estimates and projections of Blake and/or Potter. These statements are not guarantees of future performance and

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