

Innovating to become the best



Dear Customers, Partners and Shareholders,

Around the world, uncertainty prevailed in 2003. Military conflict flared up in Iraq. Terror continued to threaten world security. Many countries and regions were plagued with political antagonism and a stagnant economy.

Despite the unfavorable business environment, Samsung Electronics posted a second record-breaking year in a row in 2003. Exceptional financial results helped the stock price set record highs. Results were driven by sales of premium products. These include high-value mobile handsets, flash memory chips used in digital cameras and MP3 players, and LCDs for notebook PCs, desktop monitors and televisions.



We can point to many reasons why Samsung Electronics continues to sustain superior performance. We emphasize profits rather than sales growth. We drive competitiveness through bringing premium products to global markets. We relentlessly strive to augment the power of our brand. Most importantly, we can thank you and our employees worldwide for their undying efforts. Our people continually move toward aggressive goals with dedication, innovation and high ideals.

Executing on our vision, Samsung Electronics has become one of the world's top companies, with an increasingly powerful brand. However, today's rapidly changing environment does not guarantee a future to world-class companies. In the business world of tomorrow, only world leaders will be able to secure

and sustain growth. We have to become the best of the best.

A world leader drives change and expands new frontiers. In other words, it's all about innovation – in every aspect of our business. To become the world's best company, we must innovate continuously on six parallel tracks.

1. Product innovation – Our success depends on a continual stream of stylish, innovative products that deliver unexpected delight.
2. Technology innovation – A fast mover, we continue to develop and retain key technologies and core technological manpower. Our investments in R&D need to separate us from the rest.
3. Marketing innovation – The race to attract global

customers is both a marathon and a sprint. With fresh approaches at every level of customer contact, we continue to build the brand and drive sales.

4. Cost innovation – Even as a premium brand, cost competitiveness is crucial to profitability. While every business seeks to control costs, we look to do so in ways that complement and encourage innovation to increase market impact worldwide.

5. Global management innovation – Global success requires strong local insight and presence in key markets, and the ability to act decisively to seize opportunities where they arise. We continue to develop highly localized product strategies to meet each market's unique needs, while making changes to shorten and accelerate the decision making process worldwide.

6. Organizational culture innovation – As an adaptive,

dynamic organization, we are creating a work environment where communication is active and issues and inspirations are raised without hesitation, and where everyone shares the freedom to learn from mistakes and succeed.

We will be the best, but we are not there yet. Despite our success so far, there is no room for complacency. Becoming a world leader requires a new dimension of effort, and fundamental changes in how we think, act and work. With challenging goals and a pioneering spirit, our people are up to the task.

At Samsung Electronics, we are not content with current achievements. To drive innovation, we continue to invest heavily in the future. With a net debt/equity ratio of negative 23% at year end,



Samsung Electronics maintained a sizeable cash balance even after making huge investments in facilities and R&D. The fixed costs in semiconductor and LCD production are extremely high, forming a natural entry barrier to competition. The company's 2003 capital investment of \$5.63 billion was comparable to that of Intel. In 2004, however, our investment will double. We plan to invest \$6.62 billion in 2004 for capital improvements, including another state-of-the-art chip production line and an upgrade in technology to build larger LCD panels for television sets and computer monitors.

We have a golden opportunity right now. While our Japanese and American competitors are slow in recovering their competitiveness, and emerging competitors have yet to mature, we have posted

strong growth continuously in the past five years. This has given us the resources to invest for the future and to accelerate innovation in products, technology, marketing, cost, global operations and organizational culture. We are taking the upper hand in realizing digital convergence and leading the broadband era.

We intend to seize this opportunity to leap forward and become a premier company in the world – the best of the best – as we help shape the future of how people work, play and live.

Chief Executive Officer,
Jong-Yong Yun