

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF
SAMSUNG ELECTRONICS CO., LTD. AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS**

	Page
Auditor's Review Report	1 - 2
Interim Consolidated Financial Statements	
Interim Consolidated Statements of Financial Position.....	3 - 5
Interim Consolidated Statements of Income.....	6
Interim Consolidated Statements of Comprehensive Income.....	7
Interim Consolidated Statements of Changes in Equity.....	8 - 11
Interim Consolidated Statements of Cash Flows.....	12 - 13
Notes to the Interim Consolidated Financial Statements.....	14 - 54



Auditor's Review Report



To the Shareholders and Board of Directors of
Samsung Electronics Co., Ltd.

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements of Samsung Electronics Co., Ltd. and its subsidiaries (collectively referred to as the "Company"). These interim consolidated financial statements consist of interim consolidated statements of financial position of the Company as of September 30, 2014, and the related interim consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2014 and 2013, and the interim consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2014 and 2013, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("K-IFRS") 1034, *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to issue a report on these interim consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe the accompanying interim consolidated financial statements are not presented fairly, in all material respects, in accordance with the K-IFRS 1034, *Interim Financial Reporting*.

Other Matters

We have audited the consolidated statement of financial position of the Company as of December 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those financial statements in our audit report dated February 11, 2014. The consolidated statement of financial position as of December 31, 2013, presented herein for comparative purposes, is consistent, in all material respects, with the above mentioned audited consolidated statement of financial position as of December 31, 2013.

Seoul, Korea
November 7, 2014

This report is effective as of November 7, 2014, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Samsung Electronics Co., Ltd. and its subsidiaries

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of Korean won, in thousands of U.S dollars (Note 2.1))

	Notes	September 30, 2014 KRW	December 31, 2013 KRW	September 30, 2014 USD	December 31, 2013 USD
Assets					
Current Assets					
Cash and cash equivalents	3	18,004,063	16,284,780	17,136,934	15,500,457
Short-term financial instruments	3	45,695,172	36,722,702	43,494,358	34,954,028
Available-for-sale financial assets	3	3,251,924	1,488,527	3,095,302	1,416,835
Trade and other receivables	3	26,584,479	27,875,934	25,304,092	26,533,347
Advances		1,605,417	1,928,188	1,528,095	1,835,321
Prepaid expenses		3,974,010	2,472,950	3,782,610	2,353,845
Inventories	5	18,872,710	19,134,868	17,963,745	18,213,276
Other current assets		1,823,527	2,135,589	1,735,700	2,032,733
Assets held for sale		-	2,716,733	-	2,585,887
Total current assets		119,811,302	110,760,271	114,040,836	105,425,729
Non-current assets					
Available-for-sale financial assets	3, 4	12,317,751	6,238,380	11,724,491	5,937,921
Associates and joint ventures	6	5,391,924	6,422,292	5,132,233	6,112,975
Property, plant and equipment	7	76,012,065	75,496,388	72,351,099	71,860,259
Intangible assets	8	4,684,752	3,980,600	4,459,121	3,788,883
Long-term prepaid expenses		5,140,876	3,465,783	4,893,276	3,298,861
Deferred income tax assets		4,824,644	4,621,780	4,592,275	4,399,181
Other non-current assets		3,563,175	3,089,524	3,391,562	2,940,724
Total assets		231,746,489	214,075,018	220,584,893	203,764,533

The accompanying notes are an integral part of these interim consolidated financial statements.

Samsung Electronics Co., Ltd. and its subsidiaries

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of Korean won, in thousands of U.S dollars (Note 2.1))

	Notes	September 30, 2014 KRW	December 31, 2013 KRW	September 30, 2014 USD	December 31, 2013 USD
Liabilities and Equity					
Current liabilities					
Trade and other payables	3	17,975,973	17,633,705	17,110,197	16,784,414
Short-term borrowings	3, 9	9,722,014	6,438,517	9,253,773	6,128,419
Advances received		1,981,972	1,706,313	1,886,514	1,624,132
Withholdings		1,066,256	1,176,046	1,014,902	1,119,404
Accrued expenses		9,254,550	11,344,530	8,808,824	10,798,144
Income tax payable		3,943,563	3,386,018	3,753,629	3,222,937
Current portion of long-term borrowings and debentures	3, 9, 10	1,133,104	2,425,831	1,078,530	2,308,996
Provisions	12	7,604,860	6,736,476	7,238,587	6,412,027
Other current liabilities		525,466	467,973	500,159	445,434
Total current liabilities		53,207,758	51,315,409	50,645,115	48,843,907
Non-current liabilities					
Debentures	3, 10	1,309,116	1,311,068	1,246,065	1,247,923
Long-term borrowings	3, 9	1,774,255	985,117	1,688,802	937,671
Long-term trade and other payables	3	2,606,322	1,053,756	2,480,794	1,003,004
Net defined benefit liabilities	11	2,697,054	1,854,902	2,567,156	1,765,564
Deferred income tax liabilities		4,606,139	6,012,371	4,384,294	5,722,797
Provisions	12	661,624	460,924	629,758	438,725
Other non-current liabilities		1,416,526	1,065,461	1,348,302	1,014,146
Total liabilities		68,278,794	64,059,008	64,990,286	60,973,737

The accompanying notes are an integral part of these interim consolidated financial statements.

Samsung Electronics Co., Ltd. and its subsidiaries

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of Korean won, in thousands of U.S dollars (Note 2.1))

	Notes	September 30, 2014 KRW	December 31, 2013 KRW	September 30, 2014 USD	December 31, 2013 USD
Equity attributable to owners of the parent					
Preferred stock	14	119,467	119,467	113,713	113,713
Common stock	14	778,047	778,047	740,574	740,574
Share premium		4,403,893	4,403,893	4,191,789	4,191,789
Retained earnings	15	164,244,856	148,600,282	156,334,338	141,443,253
Other components of equity	16	(11,829,111)	(9,459,073)	(11,259,387)	(9,003,496)
Non-controlling interests		5,750,543	5,573,394	5,473,580	5,304,963
Total equity		163,467,695	150,016,010	155,594,607	142,790,796
Total liabilities and equity		231,746,489	214,075,018	220,584,893	203,764,533

The accompanying notes are an integral part of these interim consolidated financial statements.

Samsung Electronics Co., Ltd. and its subsidiaries

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(In millions of Korean won, in thousands of U.S dollars (Note 2.1))

	Notes	For the three-months ended September 30,				For the nine-months ended September 30,			
		2014 KRW	2013 KRW	2014 USD	2013 USD	2014 KRW	2013 KRW	2014 USD	2013 USD
Revenue		47,447,310	59,083,499	45,162,107	56,237,863	153,475,865	169,416,042	146,084,014	161,256,465
Cost of sales	17	30,711,398	35,527,620	29,232,246	33,816,505	94,432,732	101,248,394	89,884,572	96,371,972
Gross profit		16,735,912	23,555,879	15,929,861	22,421,358	59,043,133	68,167,648	56,199,442	64,884,493
Selling, general and administrative expenses	17, 18	12,675,390	13,392,285	12,064,906	12,747,273	39,306,489	39,693,913	37,413,373	37,782,137
Operating profit		4,060,522	10,163,594	3,864,955	9,674,085	19,736,644	28,473,735	18,786,069	27,102,356
Other non-operating income	19	828,296	419,495	788,403	399,291	3,327,828	996,647	3,167,550	948,646
Other non-operating expense	19	286,460	449,455	272,663	427,808	1,572,572	1,037,977	1,496,832	987,985
Share of profit of associates and joint ventures	6	2,076	149,651	1,976	142,443	96,217	539,902	91,583	513,899
Finance income	20	1,682,596	1,998,542	1,601,557	1,902,286	5,369,692	6,257,206	5,111,072	5,955,840
Finance expense	20	1,440,159	2,042,670	1,370,797	1,944,288	4,676,862	6,117,091	4,451,611	5,822,474
Profit before income tax		4,846,871	10,239,157	4,613,431	9,746,009	22,280,947	29,112,422	21,207,831	27,710,282
Income tax expense	21	624,526	1,994,421	594,447	1,898,364	4,233,380	5,938,934	4,029,488	5,652,898
Profit for the period		4,222,345	8,244,736	4,018,984	7,847,645	18,047,567	23,173,488	17,178,343	22,057,384
Profit attributable to owners of the parent		4,135,422	8,049,537	3,936,248	7,661,848	17,796,608	22,601,471	16,939,471	21,512,917
Profit attributable to non-controlling interests		86,923	195,199	82,736	185,797	250,959	572,017	238,872	544,467
Earnings per share for profit attributable to the owners of the parent (in Korean Won, in US dollars)	22								
- Basic		27,419	53,401	26.10	50.83	118,009	149,948	112.33	142.73
- Diluted		27,418	53,384	26.10	50.81	118,000	149,891	112.32	142.67

The accompanying notes are an integral part of these interim consolidated financial statements.

Samsung Electronics Co., Ltd. and its subsidiaries

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions of Korean won, in thousands of U.S dollars (Note 2.1))

	Notes	For the three-months ended September 30,				For the nine-months ended September 30,			
		2014	2013	2014	2013	2014	2013	2014	2013
		KRW	KRW	USD	USD	KRW	KRW	USD	USD
Profit for the period		4,222,345	8,244,736	4,018,984	7,847,645	18,047,567	23,173,488	17,178,343	22,057,384
Other comprehensive income									
Items not to be reclassified									
subsequently to profit or loss :									
Remeasurement of the net defined benefit liabilities, net of tax	16	(15,366)	(786)	(14,626)	(748)	(35,973)	(17,777)	(34,240)	(16,921)
Items to be reclassified									
subsequently to profit or loss :									
Changes in value of available-for-sale financial assets, net of tax	16	(292,853)	200,941	(278,748)	191,263	(562,797)	1,039,847	(535,691)	989,765
Share of other comprehensive income (loss) of associates and joint ventures, net of tax	16	22,408	(10,392)	21,329	(9,891)	(61,509)	(9,003)	(58,547)	(8,569)
Foreign currency translation, net of tax	16	112,396	(2,293,074)	106,983	(2,182,633)	(1,792,533)	(320,166)	(1,706,199)	(304,746)
Other comprehensive income (loss) for the period, net of tax		(173,415)	(2,103,311)	(165,062)	(2,002,009)	(2,452,812)	692,901	(2,334,677)	659,529
Total consolidated comprehensive income for the period		4,048,930	6,141,425	3,853,922	5,845,636	15,594,755	23,866,389	14,843,666	22,716,913
Consolidated comprehensive income attributable to :									
Owners of the parent		3,977,392	6,023,479	3,785,829	5,733,370	15,400,519	23,293,031	14,658,785	22,171,170
Non-controlling interests		71,538	117,946	68,093	112,266	194,236	573,358	184,881	545,743

The accompanying notes are an integral part of these interim consolidated financial statements.

Samsung Electronics Co., Ltd. and its subsidiaries

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In millions of Korean won)

2013 KRW	Preferred stock	Common stock	Share premium	Other components of equity	Retained earnings	Equity attributable to owners of the parent	Non- controlling interests	Total
Balance as of January 1, 2013	119,467	778,047	4,403,893	(8,193,044)	119,985,689	117,094,052	4,386,154	121,480,206
Profit for the period	-	-	-	-	22,601,471	22,601,471	572,017	23,173,488
Changes in value of available-for-sale financial assets, net of tax	-	-	-	1,038,661	-	1,038,661	1,186	1,039,847
Share of other comprehensive income of associates and joint ventures, net of tax	-	-	-	(8,833)	-	(8,833)	(170)	(9,003)
Foreign currency translation, net of tax	-	-	-	(320,514)	-	(320,514)	348	(320,166)
Remeasurement of net defined benefit liabilities, net of tax	-	-	-	(17,754)	-	(17,754)	(23)	(17,777)
Total comprehensive income	-	-	-	691,560	22,601,471	23,293,031	573,358	23,866,389
Dividends	-	-	-	-	(1,206,622)	(1,206,622)	(7,985)	(1,214,607)
Capital transaction under common control	-	-	-	1,688	-	1,688	287,641	289,329
Effect of business combination	-	-	-	-	-	-	894	894
Disposal of treasury stock	-	-	-	22,685	-	22,685	-	22,685
Stock option activities	-	-	-	(6,489)	-	(6,489)	-	(6,489)
Others	-	-	-	541	-	541	(145)	396
Total transactions with owners	-	-	-	18,425	(1,206,622)	(1,188,197)	280,405	(907,792)
Balance as of September 30, 2013	119,467	778,047	4,403,893	(7,483,059)	141,380,538	139,198,886	5,239,917	144,438,803

The accompanying notes are an integral part of these consolidated financial statements.

Samsung Electronics Co., Ltd. and its subsidiaries

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands of US dollars (Note 2.1))

2013 USD	Preferred stock	Common stock	Share premium	Other components of equity	Retained earnings	Equity attributable to owners of the parent	Non- controlling interests	Total
Balance as of January 1, 2013	113,713	740,574	4,191,789	(7,798,443)	114,206,824	111,454,457	4,174,903	115,629,360
Profit for the period	-	-	-	-	21,512,917	21,512,917	544,467	22,057,384
Changes in value of available-for-sale financial assets, net of tax	-	-	-	988,636	-	988,636	1,129	989,765
Share of other comprehensive income of associates and joint ventures, net of tax	-	-	-	(8,408)	-	(8,408)	(161)	(8,569)
Foreign currency translation, net of tax	-	-	-	(305,077)	-	(305,077)	331	(304,746)
Remeasurement of net defined benefit liabilities, net of tax	-	-	-	(16,899)	-	(16,899)	(22)	(16,921)
Total comprehensive income	-	-	-	658,252	21,512,917	22,171,169	545,744	22,716,913
Dividends	-	-	-	-	(1,148,508)	(1,148,508)	(7,600)	(1,156,108)
Capital transaction under common control	-	-	-	1,607	-	1,607	273,787	275,394
Effect of business combination	-	-	-	-	-	-	851	851
Disposal of treasury stock	-	-	-	21,592	-	21,592	-	21,592
Stock option activities	-	-	-	(6,176)	-	(6,176)	-	(6,176)
Others	-	-	-	515	-	515	(138)	377
Total transactions with owners	-	-	-	17,538	(1,148,508)	(1,130,970)	266,900	(864,070)
Balance as of September 30, 2013	113,713	740,574	4,191,789	(7,122,653)	134,571,233	132,494,656	4,987,547	137,482,203

The accompanying notes are an integral part of these consolidated financial statements.

Samsung Electronics Co., Ltd. and its subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In millions of Korean won)

2014 KRW	Preferred stock	Common stock	Share premium	Other components of equity	Retained earnings	Equity attributable to owners of the parent	Non- controlling interests	Total
Balance as of January 1, 2014	119,467	778,047	4,403,893	(9,459,073)	148,600,282	144,442,616	5,573,394	150,016,010
Profit for the period	-	-	-	-	17,796,608	17,796,608	250,959	18,047,567
Changes in value of available-for-sale financial assets, net of tax	-	-	-	(586,312)	-	(586,312)	23,515	(562,797)
Share of other comprehensive income of associates and joint ventures, net of tax	-	-	-	(61,138)	-	(61,138)	(371)	(61,509)
Foreign currency translation, net of tax	-	-	-	(1,710,595)	-	(1,710,595)	(81,938)	(1,792,533)
Remeasurement of net defined benefit liabilities, net of tax	-	-	-	(38,044)	-	(38,044)	2,071	(35,973)
Total comprehensive income	-	-	-	(2,396,089)	17,796,608	15,400,519	194,236	15,594,755
Dividends	-	-	-	-	(2,157,011)	(2,157,011)	(16,312)	(2,173,323)
Capital transaction under common control	-	-	-	(158)	-	(158)	(549)	(707)
Effect of business combination	-	-	-	-	-	-	378	378
Disposal of treasury stock	-	-	-	32,763	-	32,763	-	32,763
Stock option activities	-	-	-	(9,436)	-	(9,436)	-	(9,436)
Others	-	-	-	2,882	4,977	7,859	(604)	7,255
Total transactions with owners	-	-	-	26,051	(2,152,034)	(2,125,983)	(17,087)	(2,143,070)
Balance as of September 30, 2014	119,467	778,047	4,403,893	(11,829,111)	164,244,856	157,717,152	5,750,543	163,467,695

The accompanying notes are an integral part of these consolidated financial statements.

Samsung Electronics Co., Ltd. and its subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands of US dollars (Note 2.1))

2014 USD	Preferred stock	Common stock	Share premium	Other components of equity	Retained earnings	Equity attributable to owners of the parent	Non- controlling interests	Total
Balance as of January 1, 2014	113,713	740,574	4,191,789	(9,003,496)	141,443,253	137,485,833	5,304,963	142,790,796
Profit for the period	-	-	-	-	16,939,471	16,939,471	238,872	17,178,343
Changes in value of available-for-sale financial assets, net of tax	-	-	-	(558,073)	-	(558,073)	22,382	(535,691)
Share of other comprehensive income of associates and joint ventures, net of tax	-	-	-	(58,193)	-	(58,193)	(354)	(58,547)
Foreign currency translation, net of tax	-	-	-	(1,628,208)	-	(1,628,208)	(77,991)	(1,706,199)
Remeasurement of net defined benefit liabilities, net of tax	-	-	-	(36,212)	-	(36,212)	1,972	(34,240)
Total comprehensive income	-	-	-	(2,280,686)	16,939,471	14,658,785	184,881	14,843,666
Dividends	-	-	-	-	(2,053,123)	(2,053,123)	(15,526)	(2,068,649)
Capital transaction under common control	-	-	-	(150)	-	(150)	(523)	(673)
Effect of business combination	-	-	-	-	-	-	360	360
Disposal of treasury stock	-	-	-	31,185	-	31,185	-	31,185
Stock option activities	-	-	-	(8,982)	-	(8,982)	-	(8,982)
Others	-	-	-	2,743	4,737	7,480	(574)	6,906
Total transactions with owners	-	-	-	24,796	(2,048,386)	(2,023,590)	(16,263)	(2,039,853)
Balance as of September 30, 2014	113,713	740,574	4,191,789	(11,259,386)	156,334,338	150,121,028	5,473,581	155,594,609

The accompanying notes are an integral part of these consolidated financial statements.

Samsung Electronics Co., Ltd. and its subsidiaries

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of Korean won, in thousands of U.S dollars (Note 2.1))

	Notes	2014	2013	2014	2013
Cash flows from operating activities		KRW	KRW	USD	USD
Profit for the period		18,047,567	23,173,488	17,178,343	22,057,384
Adjustments	23	16,303,949	18,253,468	15,518,703	17,374,327
Changes in assets and liabilities arising from operating activities	23	638,514	(16,355)	607,761	(15,567)
Cash generated from operations		34,990,030	41,410,601	33,304,807	39,416,144
Interest received		1,118,831	699,644	1,064,945	665,947
Interest paid		(341,456)	(332,175)	(325,010)	(316,176)
Dividend received		1,459,641	281,939	1,389,340	268,360
Income tax paid		(5,657,246)	(5,627,868)	(5,384,777)	(5,356,814)
Net cash generated from operating activities		31,569,800	36,432,141	30,049,305	34,677,461
Cash flows from investing activities					
Net increase in short-term financial instruments		(6,524,466)	(16,502,340)	(6,210,228)	(15,707,539)
Net decrease (increase) in short-term available-for-sale financial assets		(784,666)	25,923	(746,874)	24,674
Proceeds from disposal of long-term available-for-sale financial assets		151,548	30,411	144,249	28,946
Acquisition of long-term available-for-sale financial assets		(5,940,674)	(326,961)	(5,654,554)	(311,214)
Proceeds from disposal of associates and joint ventures		2,014,430	240	1,917,409	228
Acquisition of associates and joint ventures		(653,567)	(37,534)	(622,089)	(35,726)
Disposal of property and equipment		267,969	266,214	255,063	253,392
Purchases of property and equipment		(14,478,346)	(15,077,203)	(13,781,026)	(14,351,040)
Disposal of intangible assets		7,865	994	7,486	946
Purchases of intangible assets		(951,358)	(651,853)	(905,538)	(620,458)
Cash outflows from business combination		(176,625)	(167,155)	(168,118)	(159,104)
Others		(2,951,180)	(1,599,723)	(2,809,043)	(1,522,674)
Net cash used in investing activities		(30,019,070)	(34,038,987)	(28,573,263)	(32,399,569)

The accompanying notes are an integral part of these interim consolidated financial statements.

Samsung Electronics Co., Ltd. and its subsidiaries
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of Korean won, in thousands of U.S dollars (Note 2.1))

	For the nine-months ended September 30,			
Notes	2014	2013	2014	2013
	KRW	KRW	USD	USD
Cash flows from financing activities				
Net increase(decrease)				
in short-term borrowings	3,474,181	(1,509,323)	3,306,854	(1,436,630)
Disposal of treasury stock	27,582	18,284	26,254	17,403
Proceeds from long-term borrowings and debentures	1,739,653	26,672	1,655,866	25,387
Repayment of long-term borrowings and debentures	(2,177,556)	(1,336,214)	(2,072,678)	(1,271,858)
Payment of dividends	(2,162,416)	(1,215,583)	(2,058,268)	(1,157,037)
Net increase(decrease) in non-controlling interests	(760)	282,016	(724)	268,435
Net cash generated(used) in financing activities	900,684	(3,734,148)	857,304	(3,554,300)
Effect of exchange rate changes on cash and cash equivalents	(732,131)	64,298	(696,869)	61,201
Net increase(decrease) in cash and cash equivalents	1,719,283	(1,276,696)	1,636,477	(1,215,207)
Cash and cash equivalents				
Beginning of the period	16,284,780	18,791,460	15,500,457	17,886,408
End of the period	18,004,063	17,514,764	17,136,934	16,671,201

The accompanying notes are an integral part of these interim consolidated financial statements.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

1.1 Company Overview

Samsung Electronics Co., Ltd. (“SEC”) was incorporated under the laws of the Republic of Korea in 1969 and listed its shares on the Korea Stock Exchange in 1975.

SEC and its subsidiaries (collectively referred to as the “Company”) operate three business divisions: Consumer Electronics (“CE”), Information technology & Mobile communications (“IM”), and Device Solutions (“DS”). The CE division includes digital TVs, monitors, printers, air conditioners and refrigerators and the IM division includes mobile phones, communication system, and computers. The DS division includes products such as memory and system LSI in the semiconductor business (“Semiconductor”), and LCD and OLED panels in the display business (“DP”). The Company is domiciled in the Republic of Korea and the address of its registered office is Suwon, the Republic of Korea.

These interim consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards (“K-IFRS”) 1110, *Consolidated Financial Statements*. SEC, as the controlling Company, consolidates its 158 subsidiaries including Samsung Display and Samsung Electronics America. The Company also applies the equity method of accounting to its 34 affiliates, including Samsung Electro-Mechanics.

1.2 Consolidated Subsidiaries

(A) The consolidated subsidiaries as of September 30, 2014 are as follows:

Area	Subsidiaries	Industry	Percentage of ownership ¹
Domestic	High Pioneer Private Investment Trust #1	Technology business venture capital investments	100.0
	Samsung Display (SDC)	Manufacture and sale of display panels	84.8
	SU Materials	Manufacture of LCD components	50.0
	STECO	Manufacture of semiconductor components	51.0
	SEMES	Manufacture of semiconductor/FPD	91.5
	Samsung Electronics Service	Repair services for electronic devices	99.3
	Samsung Electronics Sales	Sale of electronic devices	100.0
	Samsung Electronics Logitech	General logistics agency	100.0
	Samsung Medison	Medical equipment	68.5
	Ray	Dental CT	68.1
	Samsung Venture Capital Union #6	Technology business venture capital investments	99.0
	Samsung Venture Capital Union #14	Technology business venture capital investments	99.0
	Samsung Venture Capital Union #20	Technology business venture capital investments	99.0
	Samsung Venture Capital Union #21	Technology business venture capital investments	99.0
	Samsung Venture Capital Union #22	Technology business venture capital investments	99.0
	Samsung Venture Capital Union #23	Technology business venture capital investments	99.0
	Samsung Venture Capital Union #27	Technology business venture capital investments	99.0
America	Samsung Electronics America (SEA)	Sale of electronic devices	100.0
	NexusDX (Nexus)	Medical equipment	100.0
	Samsung Receivables (SRC)	Credit management	100.0
	NeuroLogica	Medical equipment	100.0
	Samsung Semiconductor (SSI)	Sale of semiconductor/LCD	100.0
	Samsung Electronics Canada (SECA)	Sale of electronic devices	100.0
	Samsung Research America (SRA)	R&D	100.0
	Grandis	R&D	100.0
	Samsung Mexicana (SAMEX)	Manufacture of electronic devices	100.0

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Area	Subsidiaries	Industry	Percentage of ownership ¹
	Samsung International (SII)	Manufacture of CTV/monitors	100.0
	Samsung Telecommunications America (STA)	Sale of communication equipment	100.0
	Samsung Austin Semiconductor (SAS)	Manufacture of semiconductor	100.0
	Samsung Electronics Mexico (SEM)	Sale of electronic devices	99.9
	SEMES America (SEMESA)	Semiconductor equipment	100.0
	Samsung Electronics Digital Appliance Mexico (SEDAM)	Manufacture of electronic devices	99.9
	Samsung Electronics Latinoamerica Miami (SEMI)	Sale of electronic devices	100.0
	Nvelo	Software	100.0
	Samsung Electronics Latinoamerica (SELA)	Sale of electronic devices	100.0
	Samsung Electronics Venezuela (SEVEN)	Marketing and services	100.0
America (Cont.)	Samsung Electronica Colombia (SAMCOL)	Sale of electronic devices	100.0
	Samsung Electronics Panama (SEPA)	Consulting	100.0
	Samsung Electronica da Amazonia (SEDA)	Manufacture and sale of electronic devices	100.0
	Samsung Electronics Argentina (SEASA)	Marketing and services	100.0
	Samsung Electronics Chile (SECH)	Sale of electronic devices	100.0
	Samsung Electronics Peru (SEPR)	Sale of electronic devices	100.0
	RT SV CO-INVEST (RT-SV)	Technology business venture capital investments	99.9
	Quietside	Sale of heating and cooling products	100.0
	SmartThings	Sale of smart home electronics	100.0
	PrinterOn	Sale of printing solutions	100.0
	PrinterOn America	Sale of printing solutions	100.0
	1397011 Ontario	Sale of printing solutions	100.0
	Samsung Electronics (UK) (SEUK)	Sale of electronic devices	100.0
	Samsung Electronics Holding (SEHG)	Holding Company	100.0
	Samsung Semiconductor Europe GmbH (SSEG)	Sale of semiconductor/LCD	100.0
	Samsung Electronics GmbH (SEG)	Sale of electronic devices	100.0
	Samsung Electronics Iberia (SESA)	Sale of electronic devices	100.0
	Samsung Electronics France (SEF)	Sale of electronic devices	100.0
	Samsung Electronics Hungarian (SEH)	Manufacture and sale of electronic devices	100.0
	Samsung Electronics Czech and Slovak (SECZ)	Sale of electronic devices	100.0
Europe	Samsung Electronics Italia (SEI)	Sale of electronic devices	100.0
	Samsung Electronics Europe Logistics (SELS)	Logistics	100.0
	Samsung Electronics Benelux (SEBN)	Sale of electronic devices	100.0
	Samsung Display Slovakia (SDSK)	Toll processing of LCD	100.0
	Samsung Electronics Romania (SEROM)	Sale of electronic devices	100.0
	Samsung Electronics Overseas (SEO)	Sale of electronic devices	100.0
	Samsung Electronics Polska (SEPOL)	Sale of electronic devices	100.0
	Samsung Electronics Portuguesa (SEP)	Sale of electronic devices	100.0
	Samsung Electronics Nordic (SENA)	Sale of electronic devices	100.0
	Samsung Semiconductor Europe (SESEL)	Sale of semiconductor/LCD	100.0
Europe	Samsung Electronics Austria (SEAG)	Sale of electronic devices	100.0

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Area	Subsidiaries	Industry	Percentage of ownership ¹	
(Cont.)	Samsung Electronics Slovakia (SESK)	Manufacture of CTV/monitors	100.0	
	Samsung Electronics Europe Holding (SEEH)	Holding Company	100.0	
	Samsung Electronics Poland Manufacturing (SEPM)	Manufacture of home appliances	100.0	
	Samsung Electronics Greece (SEGR)	Sale of electronic devices	100.0	
	Samsung Nanoradio Design Center (SNDC)	R&D	100.0	
	Nanoradio Hellas	R&D	100.0	
	SonoAce Deutschland (SMDE)	Medical equipment	100.0	
	Nanogen Recognomics (Nanogen)	Medical equipment	60.0	
	Samsung Electronics Rus (SER)	Marketing	100.0	
	Samsung Electronics Rus Company (SERC)	Sale of electronic devices	100.0	
	Samsung Electronics Ukraine (SEU)	Marketing	100.0	
	Samsung Electronics Baltics (SEB)	Sale of electronic devices	100.0	
	Samsung Electronics Ukraine Company (SEUC)	Sale of electronic devices	100.0	
	Samsung R&D Institute Rus (SRR)	R&D	100.0	
	Samsung Electronics Kazakhstan (SEK)	Marketing	100.0	
	Samsung Electronics Central Eurasia (SECE)	Sale of electronic devices	100.0	
	Samsung Electronics Rus Kaluga (SERK)	Manufacture of CTV	100.0	
	Samsung Russia Service Centre (SRSC)	Services	100.0	
	Samsung Electronics (London) Limited (SEL)	Holding Company	100.0	
	Samsung Denmark Research Center (SDRC)	R&D	100.0	
	Samsung France Research Center (SFRC)	R&D	100.0	
	Samsung Cambridge Solution Centre (SCSC)	R&D	100.0	
	Samsung Electronics Switzerland GmbH (SESG)	Sale of electronic devices	100.0	
	PrinterOn Europe	Sale of printing solutions	100.0	
	Middle East and Africa	Samsung Electronics West Africa (SEWA)	Marketing	100.0
		Samsung Electronics East Africa (SEEA)	Marketing	100.0
		Samsung Gulf Electronics (SGE)	Sale of electronic devices	100.0
		Samsung Electronics Egypt (SEEG)	Manufacture and sale of electronic devices	100.0
		Samsung Electronics Israel (SEIL)	Marketing	100.0
		Samsung Electronics Tunisia (SETN)	Marketing	100.0
		Samsung Electronics Pakistan (SEPAK)	Marketing	100.0
		Samsung Electronics South Africa (SSA)	Sale of electronic devices	100.0
Samsung Electronics Turkey (SETK)		Sale of electronic devices	100.0	
Samsung Semiconductor Israel R&D Center (SIRC)		R&D	100.0	
Samsung Electronics Levant (SELV)		Sale of electronic devices	100.0	
Samsung Electronics Morocco (SEMRC)		Sale of electronic devices	100.0	
Samsung Electronics South Africa Production(SSAP)		Manufacture of CTV/monitors	100.0	
China		Samsung Display Dongguan (SDDG)	Manufacture of LCD	100.0
	Samsung Display Tianjin (SDTJ)	Manufacture of LCD	95.0	
	Samsung Electronics Hong Kong (SEHK)	Sale of electronic devices	100.0	

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Area	Subsidiaries	Industry	Percentage of ownership ¹
	Suzhou Samsung Electronics (SSEC)	Manufacture of home appliances	88.3
	Samsung Suzhou Electronics Export (SSEC-E)	Manufacture of home appliances	100.0
	Samsung (China) Investment (SCIC)	Sale of electronic devices	100.0
	Samsung Mobile R&D Center China-Guangzhou (SRC-Guangzhou)	R&D	100.0
	Samsung Tianjin Mobile Development Center (STMC)	R&D	100.0
	Samsung Network R&D Center China-Shenzhen (SRC-Shenzhen)	R&D	100.0
	Samsung Electronics Suzhou Semiconductor (SESS)	Toll processing of semiconductor	100.0
	Samsung Electronics (Shandong) Digital Printing (SSDP)	Manufacture of printers	100.0
	Samsung Electronics Huizhou (SEHZ)	Manufacture of electronic devices	99.9
	Tianjin Samsung Electronics (TSEC)	Manufacture of CTV/monitors	91.2
	Samsung Electronics Taiwan (SET)	Sale of electronic devices	100.0
	Beijing Samsung Telecom R&D Center (BST)	R&D	100.0
	Tianjin Samsung Telecom Technology (TSTC)	Manufacture of communication equipment	90.0
	Shanghai Samsung Semiconductor (SSS)	Sale of semiconductor/LCD	100.0
	Samsung Electronics Suzhou Computer (SESC)	Manufacture of electronic devices	100.0
	Samsung Display Suzhou (SDSZ)	Toll processing of LCD	100.0
	Samsung Suzhou LCD (SSL)	Manufacture of LCD	60.0
	Shenzhen Samsung Electronics Telecommunication (SSET)	Manufacture of communication equipment	95.0
	Samsung Electronics Shanghai Telecommunication (SSTC)	Sale of communication and network equipment	100.0
	Samsung Semiconductor (China) R&D (SSCR)	R&D	100.0
	Samsung Electronics China R&D Center (SCRC)	R&D	100.0
	Samsung (China) Semiconductor (SCS)	Manufacture of semiconductor	100.0
	Samsung Electronics Hainan Fiberoptics (SEHF)	Manufacture of optical fiber/cable	100.0
	Samsung Electronics (Beijing) Service (SBSC)	Services	100.0
	Samsung Medison Shanghai Medical Instrument (SMS1)	Medical equipment	100.0
	Tianjin Samsung LED (TSLED)	Manufacture of LED	100.0
	Tianjin Samsung Opto-Electronics (TSOE)	Manufacture of cameras/camcorders	90.0
	Samsung R&D Institute China-Xian (SRC-Xian)	R&D	100.0
	SEMES (Xian)	Semiconductor equipment	100.0
Rest of Asia	Samsung Japan (SJC)	Sale of electronic devices	100.0
	Samsung R&D Institute Japan (SRJ)	R&D	100.0
	Samsung Electronics Japan (SEJ)	Sale of electronic devices	100.0

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Area	Subsidiaries	Industry	Percentage of ownership ¹
	Samsung Electronics Display (M) (SDMA)	Manufacture and sale of electronic devices	100.0
	Samsung Electronics (M) (SEMA)	Manufacture of home appliances	100.0
	Samsung Vina Electronics (SAVINA)	Manufacture and sale of electronic devices	100.0
	Samsung Asia Private (SAPL)	Sale of electronic devices	100.0
	Samsung India Electronics (SIEL)	Manufacture and sale of electronic devices	100.0
	Samsung R&D Institute India-Bangalore (SRI-B)	R&D	100.0
	Samsung Electronics Australia (SEAU)	Sale of electronic devices	100.0
	Samsung Electronics Indonesia (SEIN)	Manufacture and sale of electronic devices	100.0
	Samsung Telecommunications Indonesia (STIN)	Sale and services of communication systems	99.0
	Thai Samsung Electronics (TSE)	Manufacture and sale of electronic devices	91.8
	Samsung Electronics Philippines (SEPCO)	Sale of electronic devices	100.0
	Samsung Malaysia Electronics (SME)	Sale of electronic devices	100.0
	Samsung R&D Institute Bangladesh (SRBD)	R&D	100.0
	Samsung Electronics Vietnam (SEV)	Manufacture of electronic devices	100.0
	Samsung Telecommunications Malaysia (STM)	Services of communication systems	100.0
	Samsung Electronics Vietnam THAINGUYEN (SEVT)	Manufacture of communication equipment	100.0
	Samsung Medison India (SMIN)	Medical equipment	100.0
	Samsung Electronics New Zealand (SENZ)	Sale of electronic devices	100.0
	Samsung Display Bac Ninh (SDBN)	Manufacture of LCD	100.0

¹ Ownership represents the Company's ownership of voting rights in each entity.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(B) A summary of financial data of major consolidated subsidiaries is as follows:

(1) 2014

<i>(In millions of Korean won)</i>	As of September 30, 2014		For the three months ended September 30, 2014		For the nine months ended September 30, 2014	
	Assets	Liabilities	Sales	Net Income (Loss)	Sales	Net Income (Loss)
Samsung Display (SDC)	39,251,359	8,501,623	6,043,529	66,017	18,191,377	1,509,567
Samsung Electronics America (SEA)	10,433,218	5,521,089	3,145,802	(75,814)	9,149,586	(220,435)
Samsung (China) Investment (SCIC)	9,244,531	8,245,560	3,395,069	(322,423)	13,411,425	(576,120)
Samsung Electronics Europe Holding(SEEH)	6,751,799	4,995,025	-	1,971	-	68,329
Samsung Semiconductor (SSI)	6,673,293	3,247,447	4,681,030	47,138	13,451,383	85,071
Samsung Electronics Vietnam (SEV)	6,445,314	1,728,339	3,886,424	166,292	15,508,180	1,652,910
Samsung Austin Semiconductor (SAS)	6,156,105	3,192,419	668,145	22,956	1,756,028	51,218
Samsung (China) Semiconductor (SCS)	5,876,436	3,297,293	189,080	(12,305)	268,214	(7,785)
Samsung Electronics Huizhou (SEHZ)	5,190,159	1,712,613	3,827,484	265,450	13,369,539	738,019
Samsung Telecommunications America (STA)	4,438,811	3,709,389	4,550,285	(104,815)	16,464,805	83,974
Samsung Electronica da Amazonia (SEDA)	3,882,339	1,647,003	1,825,010	155,794	5,887,469	565,521
Tianjin Samsung Telecom Technology (TSTC)	3,261,658	1,226,512	2,809,188	322,878	9,203,231	550,952
Samsung Asia Private (SAPL)	3,060,349	728,972	312,590	(1,937)	1,096,470	1,054,976
Shanghai Samsung Semiconductor (SSS)	3,050,484	2,648,344	3,616,584	39,079	10,221,111	103,466
Samsung India Electronics (SIEL)	2,867,557	1,689,096	1,632,698	107,337	5,167,986	454,429
Samsung Electronics Vietnam THAINGUYEN (SEVT)	2,780,112	2,263,361	2,480,192	206,799	4,413,669	404,121
Samsung Electronics Europe Logistics(SELS)	2,017,695	1,455,138	2,994,163	104,646	9,829,423	511,148
Samsung Electronics Slovakia (SESK)	1,865,076	437,046	844,881	43,607	2,836,360	108,725
Samsung Suzhou LCD (SSL)	1,780,294	766,379	258,731	38,822	522,466	(47,802)
Thai Samsung Electronics (TSE)	1,667,261	391,072	1,018,159	58,042	3,494,346	170,537
Samsung Electronics Taiwan (SET)	1,630,350	1,371,874	1,179,554	18,664	3,318,667	20,679
Samsung International (SII)	1,423,356	812,259	1,619,882	60,597	4,612,129	266,261
Samsung Electronics Hungarian (SEH)	1,342,688	397,217	687,212	6,686	2,076,974	83,797
Samsung Electronics GmbH (SEG)	1,246,867	1,246,032	1,600,627	141,822	4,728,311	(77,947)
Samsung Electronics Benelux (SEBN)	1,231,738	299,432	511,153	17,769	1,854,147	5,914

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(2) 2013

<i>(In millions of Korean won)</i>	As of December 31, 2013		For the three months ended September 30, 2013		For the nine months ended September 30, 2013	
	Assets	Liabilities	Sales	Net Income (Loss)	Sales	Net Income (Loss)
	Samsung Display (SDC)	35,754,894	6,682,229	8,009,038	687,516	23,055,977
Samsung Electronics America (SEA)	12,248,560	7,262,519	3,326,146	2,869	9,410,496	42,269
Samsung (China) Investment (SCIC)	8,406,438	6,780,610	7,415,231	257,996	19,512,198	651,660
Samsung Semiconductor (SSI)	7,346,339	3,991,768	4,634,496	8,144	12,103,756	28,239
Samsung Austin Semiconductor (SAS)	6,393,348	3,467,968	511,368	20,979	1,724,063	42,280
Samsung Electronics Europe Holding (SEEH)	5,780,302	4,025,760	-	2,996	-	(18,381)
Samsung Electronics Vietnam (SEV)	5,625,759	1,493,868	7,075,152	839,013	19,499,351	2,118,176
Samsung Telecommunications America (STA)	4,735,432	4,085,299	5,856,665	132,467	15,833,904	168,238
Samsung Electronics Huizhou (SEHZ)	4,599,200	1,802,686	6,176,731	275,422	16,838,489	755,208
Samsung (China) Semiconductor (SCS)	3,752,682	1,284,560	-	(12,404)	-	(25,978)
Samsung Electronica da Amazonia (SEDA)	3,429,136	1,658,072	1,980,068	199,477	5,769,459	533,268
Tianjin Samsung Telecom Technology (TSTC)	2,939,027	1,415,277	4,183,783	144,718	11,474,375	611,747
Samsung Asia Private (SAPL)	2,425,585	1,099,521	403,322	12,272	1,220,620	776,369
Samsung India Electronics (SIEL)	1,924,832	1,195,824	1,734,515	88,307	5,077,251	197,208
Samsung Electronics Europe Logistics (SELS)	1,903,892	1,806,486	3,219,498	79,742	10,199,873	351,306
Samsung Electronics Slovakia (SESK)	1,764,078	317,224	935,043	22,960	3,078,893	117,211
Samsung Electronics Mexico (SEM)	1,554,638	1,311,133	860,818	6,080	2,458,965	(215)
Thai Samsung Electronics (TSE)	1,476,296	373,181	1,267,210	62,733	3,968,296	187,591
Samsung Suzhou LCD (SSL)	1,463,589	379,118	-	40,780	-	31,796
Samsung Electronics Rus Company (SERC)	1,410,054	1,107,915	1,556,356	(99,090)	4,313,385	(123,947)
Samsung Electronics (UK) (SEUK)	1,393,507	705,504	1,477,723	2,770	4,543,302	27,625
Samsung Electronics Taiwan (SET)	1,390,404	1,141,842	869,810	16,850	3,060,837	20,482
Shanghai Samsung Semiconductor (SSS)	1,310,109	1,005,056	4,353,974	35,945	12,052,434	74,235
Samsung Electronics Benelux (SEBN)	1,290,124	322,622	634,618	(9,694)	2,031,437	3,128
Samsung Electronics Hungarian (SEH)	1,249,691	253,536	749,684	41,791	2,294,294	105,984

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(C) Changes in scope of consolidation

(1) Subsidiary newly included in the consolidation for the nine months ended September 30, 2014:

Area	Subsidiary	Description
Domestic	Samsung Venture Capital Union #27	Incorporation
America	RT SV CO-INVEST (RT-SV)	Acquisition of shares
	Quietside	Acquisition of shares
	SmartThings	Acquisition of shares
	PrinterOn	Acquisition of shares
	PrinterOn America	Acquisition of shares
	1397011 Ontario	Acquisition of shares
Europe	PrinterOn Europe	Acquisition of shares
Middle East and Africa	Samsung Electronics South Africa Production (SSAP)	Incorporation
Asia	Samsung Display Bac Ninh (SDBN)	Incorporation

(2) Subsidiaries excluded from the consolidation for the nine months ended September 30, 2014:

Area	Subsidiary	Description
Domestic	World Cyber Games	Liquidation
	Samsung Electronics Football Club	Disposal
Europe	Samsung Medison Europe (SMNL)	Liquidation
Asia	Medison Medical Systems (India) (MI)	Liquidation
China	Medison Medical Equipment (Shanghai) (MMS)	Liquidation

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

2.1 Convenience Translation into United States Dollar Amounts

The Company operates primarily in Korean won and its official accounting records are maintained in Korean won. The US dollar amounts provided in the financial statements represent supplementary information solely for the convenience of the reader. All Korean won amounts are expressed in US dollars at the rate of ₩1,050.60 to US \$1, the exchange rate in effect on September 30, 2014. Such presentation is not in accordance with generally accepted accounting principles, and should not be construed as a representation that the Korean won amounts shown could be readily converted, realized or settled in US dollars at this or at any other rate.

2.2 Basis of Presentation

The interim consolidated financial statements for the nine months ended September 30, 2014, have been prepared in accordance with K-IFRS 1034, *Interim Financial Reporting*. These interim consolidated financial statements have been prepared in accordance with the K-IFRS standards and interpretations effective or early adopted at the reporting date.

The Company applied the following amended and enacted standards for the annual period beginning on January 1, 2014:

K-IFRS 1032, 'Financial Instruments: Presentation'

The standard provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. The adoption of this standard did not have a material impact on the consolidated financial statements.

K-IFRIC Interpretations 2121, 'Levies'

The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation (the obligating event). The adoption of this interpretation did not have a material impact on the consolidated financial statements.

2.3 Accounting Policies

Significant accounting policies and estimates adopted in the preparation of the interim consolidated financial statements are consistent with those adopted in the preparation of the annual consolidated financial statements for the year ended December 31, 2013, except changes in accounting policies applied in the financial year beginning on January 1, 2014, and as described below.

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate is applied to the pre-tax income.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2.4 Critical Accounting Estimates and Assumptions

In preparing the interim consolidated financial statements, the management of the Company makes estimates and assumptions on matters which affect the application of policies and reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates, by definition, seldom equal the related actual results.

Critical accounting estimates and assumptions made in the preparation of interim consolidated financial statements are consistent with those made in the preparation of the annual consolidated financial statements for the year ended December 31, 2013, except for the estimation methodologies applied in deriving corporate income tax.

3. Financial Instruments by Category

Categorizations of financial assets and liabilities as of September 30, 2014 and December 31, 2013 are as follows:

(1) As of September 30, 2014

<i>(In millions of Korean won)</i>	Assets at fair value through profit and loss		Loans and receivables		Available-for-sale financial assets		Total	
Assets								
Cash and cash equivalents	₩	-	₩	18,004,063	₩	-	₩	18,004,063
Short-term financial instruments		-		45,695,172		-		45,695,172
Short-term available-for-sale financial assets		-		-		3,251,924		3,251,924
Trade and other receivables		-		24,069,510		-		24,069,510
Long-term available-for-sale financial assets		-		-		12,317,751		12,317,751
Other		56,884		5,715,716		-		5,772,600
Total	₩	56,884	₩	93,484,461	₩	15,569,675	₩	109,111,020

<i>(In millions of Korean won)</i>	Liabilities at fair value through profit and loss		Financial liabilities measured at amortized cost		Other financial liabilities		Total	
Liabilities								
Trade and other payables	₩	-	₩	16,733,181	₩	-	₩	16,733,181
Short-term borrowings		-		4,960,877		4,761,137		9,722,014
Debentures		-		1,309,116		-		1,309,116
Long-term borrowings		-		1,774,255		-		1,774,255
Long-term other payables		-		2,576,575		-		2,576,575
Other		306,643		8,827,096		-		9,133,739
Total	₩	306,643	₩	36,181,100	₩	4,761,137	₩	41,248,880

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(2) As of December 31, 2013

<i>(In millions of Korean won)</i>	Assets at fair value through profit or loss		Loans and receivables		Available-for-sale financial assets		Total	
Assets								
Cash and cash equivalents	₩	-	₩	16,284,780	₩	-	₩	16,284,780
Short-term financial instruments		-		36,722,702		-		36,722,702
Short-term available-for-sale financial assets		-		-		1,488,527		1,488,527
Trade and other receivables		-		24,988,532		-		24,988,532
Long-term available-for-sale financial assets		-		-		6,238,380		6,238,380
Other		40,552		5,432,404		-		5,472,956
Total	₩	40,552	₩	83,428,418	₩	7,726,907	₩	91,195,877

<i>(In millions of Korean won)</i>	Liabilities at fair value through profit and loss		Financial liabilities measured at amortized cost		Other financial liabilities		Total	
Liabilities								
Trade and other payables	₩	-	₩	16,314,720	₩	-	₩	16,314,720
Short-term borrowings		-		3,181,582		3,256,935		6,438,517
Debentures		-		1,311,068		-		1,311,068
Long-term borrowings		-		985,117		-		985,117
Long-term other payables		-		1,023,714		-		1,023,714
Other		244,172		13,044,171		-		13,288,343
Total	₩	244,172	₩	35,860,372	₩	3,256,935	₩	39,361,479

4. Long-Term Available-for-Sale Financial Assets

(A) Details of long-term available-for-sale financial assets as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Equity securities - Listed	₩	5,629,726	₩	4,399,314
Equity securities - Non-listed ¹		3,414,851		782,297
Debt securities ²		3,273,174		1,056,769
Total	₩	12,317,751	₩	6,238,380

¹ During the nine months ended September 30, 2014, the Company acquired 2,300 shares of convertible preferred stock of Corning Incorporated for ₩2,434,320 million.

² The maximum exposure to credit risk of available-for-sale debt securities is the carrying value at the reporting date.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(B) Details of listed equity securities as of September 30, 2014 and December 31, 2013 are as follows:

(In millions of Korean won, number of shares and percentage)

	September 30, 2014			December 31, 2013	
	Number of Shares Owned	Percentage of Ownership (%)	Acquisition Cost	Book Value (Market Value)	Book Value (Market Value)
Samsung SDI	13,462,673	19.6	₩ 2,180,953	₩ 1,649,177	₩ -
Samsung Heavy Industries	40,675,641	17.6	258,299	1,027,060	1,547,708
Samsung Fine Chemicals	2,164,970	8.4	45,678	82,702	96,449
Hotel Shilla	2,004,717	5.1	13,957	239,564	133,314
Cheil Worldwide	2,998,725	2.6	2,920	67,022	82,465
iMarket Korea	647,320	1.8	324	20,585	16,668
SFA	1,822,000	10.2	38,262	79,075	74,884
Wonik IPS	7,220,216	9.0	63,250	90,614	61,949
ASML	12,595,575	2.9	726,024	1,323,698	1,248,019
CSR ¹	-	-	-	-	110,135
Rambus	4,788,125	4.2	92,682	62,779	47,851
Seagate Technology	12,539,490	3.8	218,544	754,474	743,161
Sharp	35,804,000	2.1	122,535	107,267	120,143
SunEdison Semiconductor	2,425,578	5.8	37,553	49,310	-
Wacom	8,398,400	5.0	62,013	38,226	62,268
Other	-	-	51,837	38,173	54,300
Total			₩ 3,914,831	₩ 5,629,726	₩ 4,399,314

¹ During the nine months ended September 30, 2014, the Company transferred all of its CSR shares to CSR (transfer value was EUR 79 million).

Acquisition cost includes impairment loss on available-for-sale financial assets recognized due to the decline in realizable value below acquisition cost.

The difference between the acquisition cost and the current fair value, after income tax effects, is recorded within other components of equity (unrealized gains or losses on available-for-sale financial assets).

5. Inventories

Inventories as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of Korean won)</i>	September 30, 2014			December 31, 2013		
	Gross Amount	Valuation Allowance	Book Value	Gross Amount	Valuation Allowance	Book Value
Finished goods	₩ 6,274,274	₩ (139,875)	₩ 6,134,399	₩ 7,597,391	₩ (168,041)	₩ 7,429,350
Work in process	4,841,325	(246,838)	4,594,487	4,352,080	(281,814)	4,070,266
Raw materials and supplies	7,307,399	(232,132)	7,075,267	6,960,985	(151,873)	6,809,112
Materials in transit	1,068,557	-	1,068,557	826,140	-	826,140
Total	₩ 19,491,555	₩ (618,845)	₩ 18,872,710	₩ 19,736,596	₩ (601,728)	₩ 19,134,868

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6. Investments in Associates and Joint Ventures

(A) Changes in investments in associates and joint ventures for the nine months ended September 30, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>	2014	2013
Balance as of January 1	₩ 6,422,292	₩ 8,785,489
Acquisition ¹	655,067	37,534
Disposal	(28,268)	(240)
Share of profit	96,217	539,902
Other ²	(1,753,384)	(201,411)
Balance as of September 30	₩ 5,391,924	₩ 9,161,274

¹ During the nine months ended September 30, 2014, the Company acquired 2,178,399 shares of Samsung SDI for ₩344,531 million.

² Other consists of dividends, business combinations, and effects of changes in foreign exchange rates. During the nine months ended September 30, 2014, the Company's ownership interest in Samsung SDI decreased. Consequently, ₩1,550,241 was reclassified from investment in associate to available-for-sale financial assets.

(B) Major investments in associates and joint ventures as of September 30, 2014 are as follows:

(1) Investments in associates

Investee	Nature of relationship with the Company	Percentage of Ownership ¹ (%)	Principal Business Location
Samsung Card	Business alliance	37.5	Korea
Samsung Electro-Mechanics	Manufacture and supply electronic components including passive component, circuit board, and module	23.7	Korea
Samsung SDS	Provide IT services including computer programming, system integration and management	22.6	Korea
Samsung Techwin	Manufacture and supply engine and precision machines	25.5	Korea

¹ Ownership represents the Company's ownership of common stock in each entity.

(2) Investments in joint ventures

Investee	Nature of relationship with the Company	Percentage of Ownership ¹ (%)	Principal Business Location
Samsung Corning Advanced Glass	Manufacture and supply other industrial glass devices	50.0	Korea

¹ Ownership represents the Company's ownership of common stock in each entity.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(C) Details of investments in associates and joint ventures as of September 30, 2014 and December 31, 2013 are as follows:

(1) Investments in associates

<i>(In millions of Korean won)</i>		September 30, 2014			
Investee	Acquisition cost		Net asset value¹		Book value
Samsung Card	₩	1,538,540	₩	2,369,184	₩ 2,326,861
Samsung Electro-Mechanics		359,237		900,306	902,454
Samsung SDS		147,963		907,572	930,426
Samsung Techwin		174,531		445,712	409,669
Other		727,530		479,206	615,159
Total	₩	2,947,801	₩	5,101,980	₩ 5,184,569

<i>(In millions of Korean won)</i>		December 31, 2013			
Investee	Acquisition cost		Net asset value¹		Book value
Samsung Card	₩	1,538,540	₩	2,322,897	₩ 2,340,009
Samsung Electro-Mechanics		359,237		951,693	954,496
Samsung SDI		423,722		1,451,770	1,175,204
Samsung SDS		147,963		858,671	879,956
Samsung Techwin		174,531		433,624	402,745
Other		582,646		375,959	548,553
Total	₩	3,226,639	₩	6,394,614	₩ 6,300,963

¹ Company's portion of net asset value of associates is based on the Company's ownership percentage.

(2) Investments in joint ventures

<i>(In millions of Korean won)</i>		September 30, 2014			
Investee	Acquisition cost		Net asset value¹		Book value
Samsung Corning Advanced Glass	₩	215,000	₩	201,332	₩ 201,242
Other		462,375		43,995	6,113
Total	₩	677,375	₩	245,327	₩ 207,355

<i>(In millions of Korean won)</i>		December 31, 2013			
Investee	Acquisition cost		Net asset value¹		Book value
Samsung Corning Advanced Glass	₩	115,000	₩	111,961	₩ 111,961
Other		422,995		(16,357)	9,368
Total	₩	537,995	₩	95,604	₩ 121,329

¹ Company's portion of net asset value of joint ventures is based on the Company's ownership percentage.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(D) Details of changes in equity-method investments including associates and joint ventures are as follows:

(1) For the nine months ended September 30, 2014

<i>(In millions of Korean won)</i>	Balance as of January 1	Gain/loss on valuation	Other comprehensive income/loss	Other¹	Balance as of September 30
Samsung Card	₩ 2,340,009	₩ 85,496	₩ (68,269)	₩ (30,375)	₩ 2,326,861
Samsung Electro-Mechanics	954,496	(13,253)	(25,519)	(13,270)	902,454
Samsung SDI	1,175,204	11,636	32,795	(1,219,635)	-
Samsung SDS	879,956	65,455	(10,618)	(4,367)	930,426
Samsung Techwin	402,745	(4,377)	18,063	(6,762)	409,669
Samsung Corning Advanced Glass	111,961	(10,579)	(33)	99,893	201,242
Other	557,921	(38,161)	(7,928)	109,440	621,272
Total	₩ 6,422,292	₩ 96,217	₩ (61,509)	₩ (1,065,076)	₩ 5,391,924

¹ Other consists of acquisitions, disposals, dividends, and effects of changes in currency exchange rates.

(2) For the nine months ended September 30, 2013

<i>(In millions of Korean won)</i>	Balance as of January 1	Gain/loss on valuation	Other comprehensive income/loss	Other¹	Balance as of September 30
Samsung Card	₩ 2,238,073	₩ 82,341	₩ 16,183	₩ (30,252)	₩ 2,306,345
Samsung Electro-Mechanics	890,460	86,201	3,115	(17,882)	961,894
Samsung SDI	1,174,183	64,174	(30,597)	(14,430)	1,193,330
Samsung SDS	701,808	52,551	81	(3,750)	750,690
Samsung Techwin	360,739	37,330	2,103	(6,568)	393,604
Samsung Corning Precision Materials ²	2,794,617	319,378	(1,566)	(135,924)	2,976,505
Samsung Corning Advanced Glass	114,274	(1,305)	-	-	112,969
Other	511,335	(100,768)	1,678	53,692	465,937
Total	₩ 8,785,489	₩ 539,902	₩ (9,003)	₩ (155,114)	₩ 9,161,274

¹ Other consists of acquisitions, disposals, dividends, and effects of changes in currency exchange rates.

² During the year ended December 31, 2013, the Company signed a framework agreement for comprehensive business cooperation with Corning Incorporated. The Company classified its share in Samsung Corning Precision Materials Co., Ltd (ownership percentage: 42.54%) as assets held for sale as of December 31, 2013, and disposed of such shares for ₩2,013,457 million during the nine months ended September 30, 2014. Pursuant to the agreement, the Company received additional dividends after the resolution of the Samsung Corning Precision Materials Co., Ltd shareholders' meeting.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(E) Summary of condensed financial information of major associates and joint ventures

- (1) A summary of condensed financial information of major associates and dividends received from associates as of September 30, 2014 and December 31, 2013 and for the nine months ended September 30, 2014 and 2013 is as follows:

<i>(In millions of Korean won)</i>	As of and for the nine months ended September 30, 2014			
Investee	Samsung Card¹	Samsung Electro-Mechanics	Samsung SDS	Samsung Techwin
1. Condensed financial information				
Current assets	₩ 17,704,061	₩ 2,932,445	₩ 3,280,199	₩ 1,716,276
Non-current assets		4,092,771	2,294,548	1,936,005
Current liabilities	11,386,236	2,006,995	1,169,229	1,538,450
Non-current liabilities		983,182	289,985	361,566
Non-controlling interests	-	86,358	96,170	1,632
Revenue	2,421,895	5,311,155	5,728,672	2,008,499
Income (loss) from continuing operations ²	378,239	(55,161)	282,987	(15,050)
Other comprehensive income (loss) ²	(182,294)	(112,371)	(46,942)	88,993
Total comprehensive income (loss) ²	195,945	(167,532)	236,045	73,943
2. Dividends from associates				
Dividends	₩ 30,375	₩ 13,270	₩ 4,368	₩ 6,763

¹ Samsung Card does not present current and non-current assets and liabilities as separate classifications in its statement of financial position.

² Income (loss) attributable to owners of the parent.

<i>(In millions of Korean won)</i>	As of and for the nine months ended September 30, 2013			
Investee	Samsung Card¹	Samsung Electro-Mechanics	Samsung SDS	Samsung Techwin
1. Condensed financial information				
Current assets	₩ 16,560,926	₩ 2,650,765	₩ 2,928,998	₩ 1,561,706
Non-current assets		4,534,578	2,371,102	1,872,518
Current liabilities	10,358,265	1,787,432	1,219,484	1,169,253
Non-current liabilities		1,139,884	197,237	560,191
Non-controlling interests	-	83,966	80,644	1,628
Revenue	2,119,489	6,546,501	5,001,478	2,177,909
Income (loss) from continuing operations ²	219,799	379,818	234,904	135,687
Other comprehensive income ²	47,718	12,386	373	8,985
Total comprehensive income (loss) ²	267,517	392,204	235,277	144,672
2. Dividends from associates				
Dividends	₩ 30,375	₩ 17,693	₩ 3,914	₩ 6,763

¹ Samsung Card does not present current and non-current assets and liabilities as separate classifications in its statement of financial position.

² Income (loss) attributable to owners of the parent.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

- (2) A summary of the condensed financial information of major joint ventures and dividends received from joint ventures as of September 30, 2014 and December 31, 2013 and for the nine months ended September 30, 2014 and 2013 is as follows:

<i>(In millions of Korean won)</i>	As of and for the nine months ended September 30, 2014		As of December 31, 2013, and for the nine months ended September 30, 2013	
	Samsung Corning Advanced Glass		Samsung Corning Advanced Glass	
1. Condensed financial information				
Current assets	₩	235,139	₩	171,353
- Cash and cash equivalents		45,993		64,113
Non-current assets		199,287		95,310
Current liabilities		28,816		42,674
- Current financial liabilities ¹		14,326		40,575
Non-current liabilities		2,947		67
Non-controlling interests		-		-
Revenue		190,632		52,309
Depreciation and amortization		436		196
Interest income		574		3,602
Income tax expense		(2,863)		(323)
Loss from continuing Operations ²		(21,195)		(2,610)
Other comprehensive income (loss) ²		(65)		-
Total comprehensive loss ²		(21,260)		(2,610)

¹ Accounts payable, other payables, and provisions are excluded.

² Income (loss) attributable to owners of the parent.

During the nine months ended September 30, 2014 and 2013, the Company received no dividends from its joint ventures.

- (3) Profit (loss) amounts attributable to owners of the parent from associates and joint ventures which are not individually material, are as follow:

<i>(In millions of Korean won)</i>	For the nine months ended September 30, 2014			For the nine months ended September 30, 2013		
Investee	Associates		Joint ventures	Associates		Joint ventures
Loss from continuing Operations	₩	(25,267)	₩ (26,238)	₩	(41,816)	₩ (58,932)
Other comprehensive income (loss)		(3,092)	3,309		(3,044)	(600)
Total comprehensive loss	₩	(28,359)	₩ (22,929)	₩	(44,860)	₩ (59,532)

- (F) Fair values of marketable investments in associates as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of Korean won and number of shares)</i>	September 30, 2014		December 31, 2013	
	Number of shares held	Market value	Number of shares held	Market value
Samsung Electro-Mechanics	17,693,084	₩ 875,808	17,693,084	₩ 1,291,595
Samsung Card	43,393,170	2,265,123	43,393,170	1,622,905
Samsung Techwin	13,526,935	477,501	13,526,936	735,865

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Property, Plant and Equipment

(A) Changes in property, plant and equipment for the nine months ended September 30, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>	2014		2013	
Balance as of January 1	₩	75,496,388	₩	68,484,743
Acquisition and capital expenditures		14,460,046		15,071,488
Business combinations		940		1,052
Depreciation		(12,531,487)		(11,525,379)
Sales/disposals/impairment		(711,738)		(402,338)
Other ¹		(702,084)		(268,989)
Balance as of September 30	₩	76,012,065	₩	71,360,577

¹ Other includes effects of changes in foreign currency exchange rates.

(B) Details of depreciation of property, plant and equipment by line item for the nine months ended September 30, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>	2014		2013	
Cost of sales	₩	11,351,213	₩	10,482,157
Selling and administrative expenses		1,180,274		1,043,222
Total	₩	12,531,487	₩	11,525,379

8. Intangible Assets

(A) Changes in intangible assets for the nine months ended September 30, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>	2014		2013	
Balance as of January 1	₩	3,980,600	₩	3,729,705
Internally generated (development costs)		679,094		314,340
External acquisitions		272,263		337,513
Business combinations		239,890		166,553
Amortization		(845,103)		(725,792)
Sales/disposals/impairment		(30,287)		(81,467)
Other ¹		388,295		230,102
Balance as of September 30	₩	4,684,752	₩	3,970,954

¹ Other includes effects of changes in foreign currency exchange rates.

(B) Details of amortization of intangible assets by line item for the nine months ended September 30, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>	2014		2013	
Cost of sales	₩	405,886	₩	310,787
Selling and administrative expenses		439,217		415,005
Total	₩	845,103	₩	725,792

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

9. Borrowings

Details of the carrying amounts of borrowings as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of Korean won)</i>	Financial Institutions	Annual Interest Rates (%) as of September 30, 2014	September 30, 2014	December 31, 2013
Short-term borrowings				
Collateralized borrowings ¹	Woori Bank and others	0.5 ~ 11.8	₩ 4,761,137	₩ 3,256,935
Non-collateralized borrowings	Citibank and others	0.4 ~ 11.7	4,960,877	3,181,582
Total			₩ 9,722,014	₩ 6,438,517
Current portion of long-term borrowings				
Bank borrowings	SMBC and others	0.8 ~ 7.4	₩ 613,904	₩ 1,900,937
Financial lease liabilities ²	CSSD and others	1.1 ~ 15.7	14,123	19,811
Total			₩ 628,027	₩ 1,920,748
Long-term borrowings				
Bank borrowings	SMBC and others	0.5 ~ 1.1	₩ 1,684,099	₩ 902,715
Financial lease liabilities ²	CSSD and others	1.1 ~ 15.7	90,156	82,402
Total			₩ 1,774,255	₩ 985,117

¹ Collateralized borrowings are secured by trade receivables.

² Leased property, plant and equipment were pledged as collateral.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. Debentures

Details of the carrying amount of debentures as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Korean won denominated debentures (A)	₩	199,369	₩	198,566
Foreign currency denominated debentures (B)		1,109,747		1,112,502
Total	₩	1,309,116	₩	1,311,068

(A) Details of Korean won denominated debentures as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of Korean won)</i>	Issue Date	Due Date	Annual Interest Rates (%) as of September 30, 2014	September 30, 2014	December 31, 2013
Unsecured debentures	2011.11.17	2014.11.17	4.1	500,000	500,000
Unsecured debentures	2011.11.17	2016.11.17	4.2	200,000	200,000
Less: Current portion				(500,000)	(500,000)
Less: Discounts				(631)	(1,434)
Total				₩ 199,369	₩ 198,566

All the above debentures have been issued by Samsung Display and will be repaid upon maturity.

(B) Details of foreign currency denominated debentures as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of Korean won)</i>	Issue Date	Due Date	Annual Interest Rates (%) as of September 30, 2014	September 30, 2014	December 31, 2013
US dollar denominated straight bonds ¹	1997.10.02	2027.10.01	7.7	₩ 73,542 (US\$70 million)	₩ 73,871 (US\$70 million)
US dollar denominated unsecured bonds ²	2012.04.10	2017.04.10	1.8	1,050,600 (US\$1,000 million)	1,055,300 (US\$1,000 million)
Less: Current portion				(5,253)	(5,277)
Less: Discounts				(9,142)	(11,392)
Total				₩ 1,109,747	₩ 1,112,502

¹ US dollar denominated straight bonds are repaid annually for twenty years after a ten-year grace period from the date of issuance. Interest is paid semi-annually.

² US dollar denominated unsecured bonds are issued by Samsung Electronics America, a subsidiary of the Company, and are repaid in full upon maturity. Interest is paid semi-annually.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11. Net Defined Benefit Liabilities

(A) Details of net defined benefit liabilities recognized on the consolidated statements of financial position as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Present value of funded defined benefit obligations	₩	6,495,650	₩	5,672,147
Present value of unfunded defined benefit obligations		72,621		55,931
Subtotal		6,568,271		5,728,078
Fair value of plan assets		(3,871,217)		(3,873,176)
Total	₩	2,697,054	₩	1,854,902

(B) The amounts recognized in the consolidated statements of income for the nine months ended September 30, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>	2014		2013	
Current service cost	₩	741,684	₩	628,201
Interest cost		77,393		64,279
Past service cost		110,397		-
The effect of settlements or curtailment		(34)		3,495
Total	₩	929,440	₩	695,975

(C) The pension expenses related to defined benefit plans recognized on the consolidated statements of income for the nine months ended September 30, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>	2014		2013	
Cost of sales	₩	388,346	₩	281,500
Selling and administrative expenses		541,094		414,475
Total	₩	929,440	₩	695,975

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Provisions

Changes in the provisions during the nine months ended September 30, 2014 are as follows:

<i>(In millions of Korean won)</i>	Warranty (A)	Royalty expenses (B)	Long-term incentives (C)	Bonus (D)	Other	Total
Balance as of January 1, 2014	₩ 1,945,992	₩ 4,272,670	₩ 921,848	₩ -	₩ 56,890	₩ 7,197,400
Charged (credited)						
to the statement of income	1,713,618	595,440	148,235	2,426,283	(11)	4,883,565
Payment	(1,768,530)	(1,385,156)	(408,459)	(117,102)	(56,230)	(3,735,477)
Other ¹	(85,112)	3,760	-	-	2,348	(79,004)
Balance as of September 30, 2014	₩ 1,805,968	₩ 3,486,714	₩ 661,624	₩ 2,309,181	₩ 2,997	₩ 8,266,484

¹ Other includes effects of changes in foreign currency exchange rates.

- (A) The Company accrues warranty reserves for estimated costs of future service, repairs and recalls, based on historical experience and terms of warranty programs.
- (B) The Company makes provisions for the estimated royalty expenses under negotiation with counterparties. The timing of payment depends on the settlement of the negotiation.
- (C) The Company has a long-term incentive plan for its executives based on a three-year management performance criteria and has made a provision for the estimated incentive cost for the accrued period.
- (D) The Company provides bonuses for its executives and employees, which are determined based on current-period performance. The estimated bonus cost for the accrued period has been recognized as a provision.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

13. Commitments and Contingencies

(A) Guarantees

Details of guarantees of debt provided by the Company as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Guarantees of debt for housing rental ¹	₩	78,639	₩	151,985

¹ Represent the maximum amount of debt guarantee, which was provided for employees who took debt from financial institutions in order to finance employee housing rental.

In addition to the guarantees described above, the Company provides guarantees for borrowings by Intellectual Keystone Technology (IKT), the Company's associate, to Citibank in the amount of ₩31,518 million (USD 30 million).

As of September 30, 2014, the Company's investments in Pusan Newport are pledged as collateral against the investee's debt.

(B) Litigation

- (1) Based on the agreement entered in September 1999 with respect to Samsung Motor Inc.'s ("SMI") bankruptcy proceedings, SMI's creditors (the "Creditors") filed a civil action against Mr. Kun Hee Lee, chairman of the Company, and 28 Samsung Group affiliates including the Company under joint and several liability for failing to comply with such agreement. Under the suit, the Creditors have sought ₩2,450 billion for loss of principal on loans extended to SMI, a separate amount for breach of the agreement, and an amount for default interest. During the course of Samsung Life Insurance's ("SLI") Initial Public Offering ("IPO"), its shares owned by the Creditors were disposed of, and the part of proceeds exceeding the par value of ₩70,000 was deposited into an escrow account (₩877.6 billion). Most of the claims with regards to the lawsuit have been withdrawn. On January 11, 2011, the Seoul High Court ordered Samsung Group affiliates to pay to the Creditors ₩600 billion and penalties due to delay. In accordance with the Seoul High Court order, ₩620.4 billion (which includes penalties and interest owed) was paid to the Creditors from the funds held in escrow during January 2011. Samsung Group affiliates and the Creditors appealed the Seoul High Court's ruling to the Korean Supreme Court, and the appeal is currently in progress.
- (2) The litigation with Apple Inc. in multiple regions including the U.S.A. is ongoing as of the reporting date. Regarding the ongoing lawsuit in the U.S.A, on August 24, 2012, the jury determined that the Company partially infringed Apple's design and utility patent and should pay damages to Apple. On March 1, 2013, however, the Judge ordered a new trial for a certain portion of the damages, ruling that it was originally miscalculated. On March 6, 2014, the Judge denied Apple's bid for a permanent injunction against the Company and made a final judgment restating the total damages amount determined by a jury verdict on November 21, 2013. The Company appealed the decision on the damages amount on March 7, 2014, and the appeal is currently in progress. Additionally, on May 5, 2014, the jury in another ongoing lawsuit determined that the Company partially infringed Apple's utility patent and should pay damages to Apple. A hearing on post-trial motions was held on July 10, 2014. The final conclusion and the effect of the patent lawsuits with Apple are uncertain as of the reporting date. In August 2014, the Company and Apple reached an agreement to withdraw from

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

ongoing litigation in all regions other than the United States, and the Company is currently in the process of withdrawing all non-United States based lawsuits.

- (3) In addition, during the normal course of business with numerous companies, the Company has been involved in various claims, disputes, and investigations conducted by regulatory bodies. Although the outflow of resources and timing of these matters are uncertain, the Company believes the outcome will not have a material impact on the financial condition of the Company.

14. Share Capital

The Company's total number of authorized shares is 500,000,000 shares (₩5,000 per share). The Company has issued 147,299,337 shares of common stock and 22,833,427 shares of preferred stock as of September 30, 2014, excluding retired shares. Due to the retirement of shares, the total par value of the shares issued is ₩850,664 million (common stock ₩736,497 million and preferred stock ₩114,167 million), which does not agree with paid-in capital of ₩897,514 million.

15. Retained Earnings

(A) Retained earnings as of September 30, 2014 and December 31, 2013 consist of:

<i>(In millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Appropriated	₩	119,947,786	₩	104,175,235
Unappropriated		44,297,070		44,425,047
Total	₩	164,244,856	₩	148,600,282

- (B) On July 31, 2014, the Company declared cash dividends to shareholders of common stock and preferred stock as interim dividends for the six-months ended June 30, 2014. These interim dividends were paid out on August 29, 2014.

Details of the interim dividends for the nine months ended September 30, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>		September 30, 2014		September 30, 2013	
Number of shares eligible for dividends	Common stock	130,962,651		130,878,713	
	Preferred stock	19,853,734		19,853,734	
Dividend rate		10%		10%	
Dividend amount	Common stock	₩ 65,481		₩ 65,439	
	Preferred stock	9,927		9,927	
	Total	₩ 75,408		₩ 75,366	

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

16. Other Components of Equity

Other components of equity as of September 30, 2014 and December 31, 2013 consist of:

<i>(In millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Treasury stock	₩	(7,303,991)	₩	(7,323,432)
Stock options		807		10,243
Unrealized gains on available-for-sale financial assets		1,602,701		2,189,013
Share of other comprehensive income of associates and joint ventures		680,755		741,893
Foreign currency translation		(5,321,249)		(3,610,654)
Remeasurement of net defined benefit liabilities		(1,340,632)		(1,302,588)
Other		(147,502)		(163,548)
Total	₩	(11,829,111)	₩	(9,459,073)

The Company repurchases registered common stock and non-voting preferred stock and recognizes the repurchase amount in other components of equity. Such stock will be distributed upon exercise of stock options. Treasury stock as of September 30, 2014 and December 31, 2013 consists of the following:

<i>(In millions of Korean won and number of shares)</i>	September 30, 2014		December 31, 2013	
	Preferred Stock	Common Stock	Preferred Stock	Common Stock
Number of shares	2,979,693 shares	16,336,686 shares	2,979,693 shares	16,384,216 shares
Acquisition cost	₩ 621,843	₩ 6,682,148	₩ 621,843	₩ 6,701,589

17. Expenses by Nature

Expenses by nature for the nine months ended September 30, 2014 and 2013 consist of the following:

<i>(In millions of Korean won)</i>	September 30, 2014		September 30, 2013	
	3 Months	9 Months	3 Months	9 Months
Raw materials and goods	₩ 19,965,811	₩ 62,986,746	₩ 24,542,899	₩ 69,299,890
Wages and salaries	4,409,601	13,326,624	4,312,396	12,147,576
Pension	287,956	975,262	240,859	728,458
Depreciation	4,326,214	12,531,487	3,939,419	11,525,379
Amortization	312,151	845,103	253,891	725,792
Welfare	838,033	2,598,983	763,144	2,347,786
Commission and service charges	1,941,816	6,417,942	2,195,830	6,986,429
Other	11,305,206	34,057,074	12,671,467	37,180,997
Total¹	₩ 43,386,788	₩ 133,739,221	₩ 48,919,905	₩ 140,942,307

¹ Expenses above are equal to the sum of cost of sales and selling and administrative expenses on the consolidated statements of income.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18. Selling and Administrative Expenses

Selling and administrative expenses for the nine months ended September 30, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>	September 30, 2014		September 30, 2013	
	3 Months	9 Months	3 Months	9 Months
1) Selling and administrative expenses				
Wages and salaries	₩ 1,309,046	₩ 3,943,049	₩ 1,313,368	₩ 3,811,928
Pension	69,470	226,538	56,149	172,159
Commission and service charges	1,941,816	6,417,942	2,195,830	6,986,429
Depreciation	170,368	498,853	141,042	406,228
Amortization	100,314	298,508	100,867	304,870
Advertising	849,261	2,665,563	904,561	2,969,873
Sales promotion	2,020,609	5,751,672	2,052,242	5,822,291
Transportation	927,563	2,742,874	999,770	2,920,162
Warranty	724,495	2,397,659	699,921	2,182,170
Other	1,222,763	3,630,630	1,268,941	3,591,944
2) Research and development expenses				
Total expenses	3,677,237	11,412,295	3,783,666	10,840,199
Capitalized expenses	(337,552)	(679,094)	(124,072)	(314,340)
Total	₩ 12,675,390	₩ 39,306,489	₩ 13,392,285	₩ 39,693,913

19. Other Non-Operating Income and Expense

Details of other non-operating income and expense for the nine months ended September 30, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>	September 30, 2014		September 30, 2013	
	3 Months	9 Months	3 Months	9 Months
Non-operating income				
Dividend income	₩ 30,599	₩ 1,381,208	₩ 19,877	₩ 75,197
Rental income	21,390	67,246	26,482	77,852
Gain on disposal of investments	16,890	142,103	10,789	28,524
Gain on disposal of property, plant and equipment	34,838	162,585	62,080	108,351
Other	724,579	1,574,686	300,267	706,723
Total	₩ 828,296	₩ 3,327,828	₩ 419,495	₩ 996,647

<i>(In millions of Korean won)</i>	September 30, 2014		September 30, 2013	
	3 Months	9 Months	3 Months	9 Months
Non-operating expense				
Loss on disposal of property, plant and equipment	₩ 28,861	₩ 120,503	₩ 29,224	₩ 147,803
Donations	149,260	369,317	218,783	351,499
Loss on disposal of assets classified as held for sale	-	723,869	-	-
Other	108,339	358,883	201,448	538,675
Total	₩ 286,460	₩ 1,572,572	₩ 449,455	₩ 1,037,977

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

20. Finance Income and Expense

(A) Details of finance income and expense for the nine months ended September 30, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>	September 30, 2014		September 30, 2013	
	3 Months	9 Months	3 Months	9 Months
Finance income				
Interest income:	₩	480,149	₩	1,343,255
Interest income from loans and receivables		449,731		1,283,582
Interest income from available-for-sale financial assets		30,418		59,673
Foreign exchange differences		1,058,158		3,603,871
Gain on derivatives		144,289		422,566
Total	₩	1,682,596	₩	5,369,692

<i>(In millions of Korean won)</i>	September 30, 2014		September 30, 2013	
	3 Months	9 Months	3 Months	9 Months
Finance expense				
Interest expense:	₩	154,360	₩	442,545
Interest expense from financial liabilities measured at amortized cost		96,161		288,964
Other financial liabilities		58,199		153,581
Foreign exchange differences		1,131,322		3,768,362
Loss on derivatives		154,477		465,955
Total	₩	1,440,159	₩	4,676,862

(B) The Company recognizes foreign exchange gains and losses arising from foreign currency transactions and translation as finance income and expense.

21. Income Tax Expense

Income tax expense is recognized based on management's best estimate of the average annual income tax rate expected for the full financial year. The average annual tax rate expected as of September 30, 2014 to be effective for the year ended December 31, 2014 is 19.0% (September 30, 2013: 20.4%).

22. Earnings per Share

(A) Basic earnings per share

Basic earnings per share for the nine months ended September 30, 2014 and 2013 are calculated as follows:

(1) Common stock

<i>(In millions of Korean won and thousands of shares)</i>	September 30, 2014		September 30, 2013	
	3 Months	9 Months	3 Months	9 Months
Net income as reported on the statements of income	₩	4,135,422	₩	17,796,608
Net income available for common stock		3,590,812		15,453,185
Weighted-average number of common shares outstanding (in thousands)		130,963		130,949
Basic earnings per share (in Korean won)	₩	27,419	₩	118,009

(2) Preferred stock

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

<i>(In millions of Korean won and thousands of shares)</i>	September 30, 2014		September 30, 2013	
	3 Months	9 Months	3 Months	9 Months
Net income as reported on the statements of income	₩ 4,135,422	₩ 17,796,608	₩ 8,049,537	₩ 22,601,471
Net income available for preferred stock	544,610	2,343,423	1,060,400	2,977,430
Weighted-average number of preferred shares outstanding (in thousands)	19,854	19,854	19,854	19,854
Basic earnings per preferred share (in Korean won)	₩ 27,431	₩ 118,034	₩ 53,411	₩ 149,968

(B) Diluted earnings per share

The Company has one category of potentially dilutive ordinary shares: stock options. Dilutive earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Diluted earnings per share for the nine months ended September 30, 2014 and 2013 are calculated as follows:

(1) Common stock

<i>(In millions of Korean won and thousands of shares)</i>	September 30, 2014		September 30, 2013	
	3 Months	9 Months	3 Months	9 Months
Net income available for common stock and common stock equivalents	₩ 3,590,822	₩ 15,453,227	₩ 6,989,478	₩ 19,625,160
Weighted-average number of shares of common stock and common stock equivalents (in thousands)	130,965	130,959	130,929	130,929
Diluted earnings per share (in Korean won)	₩ 27,418	₩ 118,000	₩ 53,384	₩ 149,891

(2) Preferred stock

<i>(In millions of Korean won and thousands of shares)</i>	September 30, 2014		September 30, 2013	
	3 Months	9 Months	3 Months	9 Months
Net income available for preferred stock and preferred stock equivalents	₩ 544,600	₩ 2,343,381	₩ 1,060,059	₩ 2,976,311
Weighted-average number of shares of preferred stock and preferred stock equivalents (in thousands)	19,854	19,854	19,854	19,854
Diluted earnings per preferred share (in Korean won)	₩ 27,431	₩ 118,032	₩ 53,393	₩ 149,912

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

23. Cash Flows Generated from Operating Activities

Adjustments and changes in assets and liabilities arising from operating activities for the nine months ended September 30, 2014 and 2013 are as follows:

- Adjustments

<i>(In millions of Korean won)</i>	2014	2013
Adjustments for:		
Income tax expense	₩ 4,233,380	₩ 5,938,934
Finance income	(2,722,916)	(2,075,417)
Finance costs	1,420,957	1,480,926
Pension	975,262	728,458
Depreciation	12,531,487	11,525,379
Amortization	845,103	725,792
Bad debt expense	290,893	209,293
Gain on valuation of equity method	(96,217)	(539,902)
Gain on disposal of property, plant and equipment	(162,585)	(108,351)
Loss on disposal of property, plant and equipment	120,503	147,803
Obsolescence and scrapping of inventories	645,220	545,826
Loss on disposal of assets classified as held for sale	723,869	-
Dividend income	(1,381,208)	(75,197)
Other	(1,119,799)	(250,076)
Adjustments, total	₩ 16,303,949	₩ 18,253,468

- Changes in assets and liabilities arising from operating activities

<i>(In millions of Korean won)</i>	2014	2013
Changes in assets and liabilities :		
Increase in trade receivables	₩ (538,733)	₩ (2,289,435)
Decrease in other receivables	477,583	573,767
Decrease (increase) in advances	113,763	(113,191)
Increase in prepaid expenses	(2,704,279)	(366,733)
Increase in inventories	(860,536)	(5,071,065)
Increase in trade payables	2,549,339	1,055,069
Increase in other payables	1,323,115	1,477,276
Increase in advances received	558,201	66,548
Increase (decrease) in withholdings	(101,171)	390,683
Increase (decrease) in accrued expenses	(1,929,725)	677,685
Increase in provisions	1,323,833	4,088,752
Payment of severance benefits	(251,242)	(207,609)
Other	678,366	(298,102)
Changes in net working capital, total	₩ 638,514	₩ (16,355)

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

24. Financial Risk Management

The Company's financial risk management focuses on minimizing market risk, credit risk, and liquidity risk arising from operating activities. To mitigate these risks, the Company implements and operates a financial risk policy and program that closely monitors and manages such risks.

The finance team mainly carries out the Company's financial risk management. With the cooperation of the Company's divisions and domestic and foreign subsidiaries, the finance team periodically measures, evaluates and hedges financial risk and also establishes and implements the global financial risk management policy.

Additionally, financial risk management officers are dispatched to the regional headquarters of each area including the United States of America, England, Singapore, China, Japan, Brazil and Russia to operate the local financial center for global financial risk management.

The Company's financial assets that are under financial risk management are composed of cash and cash equivalents, short-term financial instruments, available-for-sale financial assets, trade and other receivables and other financial assets. The Company's financial liabilities under financial risk management are composed of trade and other payables, borrowings, debentures, and other financial liabilities.

(A) Market risk

(1) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States of America, European Union, South America, Japan and other Asian countries. Revenues and expenses arise from foreign currency transactions and exchange positions, and the most widely used currencies are the US Dollar, EU's EURO, Japanese Yen and Chinese Yuan. Foreign exchange risk management of the Company is carried out by both SEC and its subsidiaries. To minimize foreign exchange risk arising from operating activities, the Company's foreign exchange risk management policy requires normal business transactions to be in local currency or for the cash-in currency to be matched up with the cash-out currency. The Company's foreign exchange risk management policy also defines foreign exchange risk, measurement period, controlling responsibilities, management procedures, hedging period and hedge ratio.

The Company limits all speculative foreign exchange transactions and operates a system to manage receivables and payables denominated in foreign currency. It evaluates, manages and reports foreign currency exposures of such receivables and payables.

(2) Price risk

The Company's investment portfolio consists of direct and indirect investments in equity securities classified as available for sale, which is in line with the Company's strategy.

As of September 30, 2014 and December 31, 2013 a price fluctuation in relation to marketable equity securities by 1% would result in changes in other comprehensive income (before income tax) of ₩56,297 million and ₩43,993 million, respectively.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(3) Interest rate risk

Risk of changes in interest rate for a floating interest rate financial instrument is defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk mainly through interest bearing liabilities and assets. The Company's position with regard to interest rate risk exposure is mainly driven by its debt obligations such as bonds, interest-bearing deposits and issuance of receivables. In order to minimize interest rate risk, the Company maintains minimum external borrowings by facilitating cash pooling systems on a regional and global basis. The Company manages exposed interest rate risk via periodic monitoring and handles risk factors on a timely basis.

(B) Credit risk

Credit risk arises during the normal course of transactions and investing activities where clients or other parties fail to discharge an obligation. The Company monitors and sets the client's and counterparty's credit limits on a periodic basis based on the client's and counterparty's financial conditions, default history and other important factors.

Credit risk can arise from transactions with financial institutions which include financial instrument transactions such as cash and cash equivalents, savings, and derivative financial instruments. To minimize such risk, the Company transacts only with banks that have a strong international credit rating (S&P A and above), and all new transactions with financial institutions with no prior transaction history are approved, managed and monitored by the Company's finance team and the local finance center. The Company requires separate approval for contracts with restrictions.

Most of the Company's accounts receivable is adequately insured to manage any risk, therefore, the Company estimates its credit risk exposure to be limited. The Company estimates that its maximum exposure to credit risk is the carrying value of its financial assets, net of impairment losses.

(C) Liquidity risk

Due to large investments made by the Company, maintaining reasonable levels of liquidity risk is critical. The Company strives to achieve this goal by periodically forecasting its capital balance, estimating required cash levels, and managing income and expenses.

The Company manages its liquidity risk by periodically forecasting projected cash flows. If abnormal signs are identified, the Company works with the local finance center and provides liquidity support by utilizing a globally integrated finance structure, such as Cash Pooling. In addition, the Company maintains a liquidity management process which provides additional financial support by the local finance center and the Company. The Cash Pooling program allows sharing of surplus funds among entities and contributes to minimizing liquidity risk and strengthening the Company's competitive position by reducing capital operation expenses and finance costs.

In addition, the Company mitigates liquidity risk by contracting with financial institutions with respect to bank overdrafts and foreign trade finance and by providing payment guarantees to subsidiaries. For large scale facility investments, liquidity risk is minimized by utilizing internal reserves and long term borrowings according to the capital injection schedule.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(D) Capital risk management

The purpose of capital risk management is to maintain a sound capital structure. The Company monitors capital on the basis of the ratio of total liabilities to total equity. This ratio is calculated by dividing the total liabilities by total equity in the consolidated financial statements.

The Company's capital risk management policy has not changed since the financial year ended December 31, 2013. The Company has maintained an A+ and A1 credit rating from S&P and Moody's, respectively, on its long term debt.

The total liabilities to equity ratios as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of Korean won)</i>	September 30, 2014		December 31, 2013	
Total liabilities	₩	68,278,794	₩	64,059,008
Total equity		163,467,695		150,016,010
Total liabilities to equity ratio		41.8%		42.7%

(E) Fair value estimation

(1) Carrying amounts and fair values of financial instruments by category as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of Korean won)</i>	September 30, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents ¹	₩ 18,004,063	₩ -	₩ 16,284,780	₩ -
Short-term financial instruments ¹	45,695,172	-	36,722,702	-
Short-term available-for-sale financial assets	3,251,924	3,251,924	1,488,527	1,488,527
Trade and other receivables ¹	24,069,510	-	24,988,532	-
Long-term available-for-sale financial assets ²	12,317,751	11,902,526	6,238,380	5,850,155
Other	5,772,600	5,743,505	5,472,956	5,436,470
Total Financial assets	₩ 109,111,020		₩ 91,195,877	
Financial liabilities				
Trade and other payables ¹	₩ 16,733,181	₩ -	₩ 16,314,720	₩ -
Short-term borrowings ¹	9,722,014	-	6,438,517	-
Debentures	1,309,116	1,333,728	1,311,068	1,327,569
Long-term borrowings	1,774,255	1,709,050	985,117	971,844
Long-term other payables	2,576,575	2,721,437	1,023,714	1,090,580
Other ¹	9,133,739	-	13,288,343	-
Total financial liabilities	₩ 41,248,880		₩ 39,361,479	

¹ Assets and liabilities whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

² Amount measured at cost (September 30, 2014: ₩415,225 million, December 31, 2013: ₩388,225 million) is excluded as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(2) The following table presents the assets and liabilities, by level, that are measured at fair value:

<i>(In millions of Korean won)</i>	As of September 30, 2014			
	Level 1	Level 2	Level 3	Total balance
Derivatives	₩ -	₩ 54,413	₩ 2,471	₩ 56,884
Available-for-sale financial assets ¹	6,695,188	5,344,222	3,115,040	15,154,450
Total assets	6,695,188	5,398,635	3,117,511	15,211,334
Derivatives	-	306,643	-	306,643
Total liabilities	₩ -	₩ 306,643	₩ -	₩ 306,643

<i>(In millions of Korean won)</i>	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total balance
Derivatives	₩ -	₩ 40,552	₩ -	₩ 40,552
Available-for-sale financial assets ¹	5,656,806	1,188,498	493,378	7,338,682
Total assets	5,656,806	1,229,050	493,378	7,379,234
Derivatives	-	244,172	-	244,172
Total liabilities	₩ -	₩ 244,172	₩ -	₩ 244,172

¹ Amount measured at cost (September 30, 2014: ₩415,225 million, December 31, 2013: ₩388,225 million) is excluded as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

The levels of the fair value hierarchy and its application to financial assets and liabilities are described below.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 are listed equity investments classified as trading securities or available-for-sale financial assets.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Company performs the fair value measurements required for financial reporting purposes, including level 3 fair values and discusses valuation processes and results at least once every quarter in line with the Company's quarterly reporting dates. The Company's policy is to recognize transfers between levels at the end of the reporting period, if corresponding events or changes in circumstances have occurred.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments. For trade and other receivables, the book value approximates a reasonable estimate of fair value.

(3) Valuation technique and the inputs

The Company utilizes a present value technique to discount future cash flows at a proper interest rate for corporate bonds, government and public bonds, and bank debentures that are classified as Level 2 in the fair value hierarchy.

The following table presents the valuation technique and the inputs used for major financial instruments classified as Level 3.

(In millions of Korean won)

Classification	Fair Value	Valuation Technique	Level 3 Inputs	Input Range (Weighted Average)
Long-term available-for-sale financial assets				
Samsung Petrochemical	80,347	Discounted cash flow	Permanent growth rate Weighted average cost of capital	-1.00% ~ 1.00% (0%) 6.37% ~ 8.37% (7.37%)
Samsung General Chemicals	80,653	Discounted cash flow	Permanent growth rate Weighted average cost of capital	-1.00% ~ 1.00% (0%) 7.01% ~ 9.01% (8.01%)
Taewon Electric	17,072	Discounted cash flow	Permanent growth rate Weighted average cost of capital	-1.00% ~ 1.00% (0%) 6.06% ~ 8.06% (7.06%)
Pantech	53,053	Discounted cash flow	Permanent growth rate Weighted average cost of capital	-1.00% ~ 1.00% (0%) 8.81% ~ 10.81% (9.81%)
Samsung Venture Investment	7,021	Discounted cash flow	Permanent growth rate Weighted average cost of capital	-1.00% ~ 1.00% (0%) 7.69% ~ 9.69% (8.69%)
Coming Incorporated convertible preferred stock	2,625,324	Trinomial model	Risk adjusted discount rate Price volatility	5.49% ~ 7.49% (6.49%) 30.90% ~ 36.90% (33.90%)
Derivatives				
Embedded derivatives (convertible bonds)	2,471	Binomial model	Discount rate Stock price volatility	5.50% ~ 10.90% (7.74%) 10.26% ~ 16.83% (13.30%)

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(4) Changes in Level 3 instruments:

<i>(In millions of Korean won)</i>	2014	2013
Balance as of January 1	₩ 493,378	₩ 389,195
Purchases	2,498,800	131,151
Disposals	(10,871)	(15,067)
Amount recognized in profit or loss	(14,518)	(5,129)
Amount recognized in other comprehensive income	192,453	5,798
Other	(41,731)	6,722
Balance as of September 30	₩ 3,117,511	₩ 512,670

(5) Sensitivity analysis for recurring fair value measurements categorized within Level 3

A sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or most unfavorable.

The results of the sensitivity analysis for the effect on profit or loss (before-tax amount for other comprehensive income or loss) from changes in inputs for major financial instruments which are categorized within Level 3 and subject to sensitivity analysis are as follows:

<i>(In millions of Korean won)</i>	Favorable Changes		Unfavorable Changes	
Classification	Profit or Loss	Equity	Profit or Loss	Equity
Long-term available for sale financial assets ¹	₩ -	₩ 278,243	₩ -	₩ (202,701)
Embedded derivatives (convertible bonds) ²	469	469	(482)	(482)
Total	₩ 469	₩ 278,712	₩ (482)	₩ (203,183)

¹ Changes in fair value are calculated by increasing or decreasing the correlation between volatility (30.90 to 36.90%) and discount rate for convertible preferred stock. Similarly, for other equity securities, changes in fair value are calculated with the correlation between growth ratio (-1% to 1%) and discount rate, which are significant unobservable inputs.

² For equity derivatives, changes in their fair value are calculated by increasing or decreasing the correlation between stock prices and volatility by 10%.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25. Segment Information

(A) Operating segment information

The chief operating decision maker has been identified as the Management Committee. The Management Committee is responsible for making strategic decisions based on review of the group's internal reporting. The Management Committee has determined the operating segments based on these reports.

The Management Committee reviews operating profits of each operating segment in order to assess performance and to make decisions about allocating resources to the segment. The operating segments are product based and include CE, IM, Semiconductor, DP and others.

Depreciation, amortization of intangible assets, and operating profit were prepared after the allocation of internal transaction adjustments. Total assets and liabilities of each operating segment are excluded from the disclosure as these have not been provided regularly to the Management Committee.

(1) For the nine months ended September 30, 2014

<i>(In millions of Korean won)</i>	DS						Intercompany elimination within the group	Consolidated
	CE	IM	Total ¹	Semi conductor	DP	Total ¹		
Total segment revenue	88,921,865	180,415,490	96,024,484	54,357,702	38,553,383	366,719,594	(213,243,729)	153,475,865
Intercompany revenue	(53,005,877)	(94,943,836)	(47,948,414)	(25,289,738)	(19,872,808)	(213,243,729)	213,243,729	-
Net revenue ²	35,915,988	85,471,654	48,076,070	29,067,964	18,680,575	153,475,865	-	153,475,865
Depreciation	444,546	552,221	11,018,437	7,736,673	3,195,519	12,531,487	-	12,531,487
Amortization	72,794	138,126	394,232	296,337	86,665	845,103	-	845,103
Operating profit	1,004,513	12,601,764	6,295,992	6,074,097	187,880	19,736,644	-	19,736,644

¹ Includes other amounts not included in specific operating segments.

² Segment net revenue includes intersegment revenues.

(2) For the three months ended September 30, 2014

<i>(In millions of Korean won)</i>	DS						Intercompany elimination within the group	Consolidated
	CE	IM	Total ¹	Semi conductor	DP	Total ¹		
Total segment revenue	29,440,211	51,069,111	32,768,424	18,964,059	12,828,069	113,821,900	(66,374,590)	47,447,310
Intercompany revenue	(17,843,894)	(26,491,816)	(16,479,645)	(9,074,068)	(6,573,334)	(66,374,590)	66,374,590	-
Net revenue ²	11,596,317	24,577,295	16,288,779	9,889,991	6,254,735	47,447,310	-	47,447,310
Depreciation	146,442	193,609	3,765,499	2,729,683	1,053,466	4,326,214	-	4,326,214
Amortization	24,655	46,511	157,752	124,487	29,646	312,151	-	312,151
Operating profit	46,179	1,750,723	2,331,290	2,263,497	55,129	4,060,522	-	4,060,522

¹ Includes other amounts not included in specific operating segments.

² Segment net revenue includes intersegment revenues.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(3) For the nine months ended September 30, 2013

<i>(In millions of Korean won)</i>	DS						Intercompany elimination within the group	Consolidated
	CE	IM	Total ¹	Semi conductor	DP	Total ¹		
Total segment revenue	88,715,835	225,454,070	99,731,189	50,191,364	48,068,381	413,159,851	(243,743,809)	169,416,042
Intercompany revenue	(52,649,562)	(120,523,352)	(48,965,309)	(23,193,842)	(24,693,209)	(243,743,809)	243,743,809	-
Net revenue ²	36,066,273	104,930,718	50,765,880	26,997,522	23,375,172	169,416,042	-	169,416,042
Depreciation	493,468	463,636	10,210,936	6,933,533	3,136,703	11,525,379	-	11,525,379
Amortization	69,314	140,823	309,268	219,716	77,758	725,792	-	725,792
Operating profit	1,014,309	19,487,577	7,858,030	4,893,293	2,873,712	28,473,735	-	28,473,735

¹ Includes other amounts not included in specific operating segments.

² Segment net revenue includes intersegment revenues.

(4) For the three months ended September 30, 2013

<i>(In millions of Korean won)</i>	DS						Intercompany elimination within the group	Consolidated
	CE	IM	Total ¹	Semi conductor	DP	Total ¹		
Total segment revenue	30,470,258	77,956,962	36,043,740	18,660,571	16,643,160	144,651,042	(85,567,543)	59,083,499
Intercompany revenue	(18,421,839)	(41,384,535)	(18,139,531)	(8,918,574)	(8,558,186)	(85,567,543)	85,567,543	-
Net revenue ²	12,048,419	36,572,427	17,904,209	9,741,997	8,084,974	59,083,499	-	59,083,499
Depreciation	163,439	164,286	3,481,480	2,363,323	1,071,005	3,939,419	-	3,939,419
Amortization	23,749	48,008	113,686	80,490	28,990	253,891	-	253,891
Operating profit	350,826	6,696,183	3,092,060	2,062,682	984,947	10,163,594	-	10,163,594

¹ Includes other amounts not included in specific operating segments.

² Segment net revenue includes intersegment revenues.

(B) Regional information

The regional segment information provided to the Management Committee for the reportable segments as of and for the three and nine months ended September 30, 2014 and 2013 is as follows:

(1) As of and for the nine months ended September 30, 2014

<i>(In millions of Korean won)</i>	DS					Intercompany elimination within the group	Consolidated
	Korea	America	Europe	Asia and Africa	China		
Total segment revenue	126,544,595	66,124,889	49,365,769	56,179,942	68,504,399	(213,243,729)	153,475,865
Intercompany revenue	(110,274,410)	(17,691,465)	(17,819,926)	(24,548,323)	(42,909,605)	213,243,729	-
Revenue from external customers	16,270,185	48,433,424	31,545,843	31,631,619	25,594,794	-	153,475,865
Non-current assets ¹	60,478,871	7,206,280	906,949	3,515,095	9,118,247	(528,625)	80,696,817

¹ Total of non-current assets other than financial instruments, deferred tax assets, and investments in associates and joint ventures.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(2) As of and for the three months ended September 30, 2014

<i>(In millions of Korean won)</i>	Korea	America	Europe	Asia and Africa	China	Intercompany elimination within the group	Consolidated
Total segment revenue	38,506,315	21,370,907	15,588,078	17,467,802	20,888,798	(66,374,590)	47,447,310
Intercompany revenue	(33,496,061)	(6,266,829)	(5,605,906)	(7,798,254)	(13,207,540)	66,374,590	-
Revenue from external customers	5,010,254	15,104,078	9,982,172	9,669,548	7,681,258	-	47,447,310
Non-current assets ¹	60,478,871	7,206,280	906,949	3,515,095	9,118,247	(528,625)	80,696,817

¹ Total of non-current assets other than financial instruments, deferred tax assets, and investments in associates and joint ventures.

(3) As of and for the nine months ended September 30, 2013

<i>(In millions of Korean won)</i>	Korea	America	Europe	Asia and Africa	China	Intercompany elimination within the group	Consolidated
Total segment revenue	145,362,663	65,850,696	57,471,330	57,463,563	87,011,599	(243,743,809)	169,416,042
Intercompany revenue	(127,287,785)	(16,890,013)	(18,877,832)	(24,174,004)	(56,514,175)	243,743,809	-
Revenue from external customers	18,074,878	48,960,683	38,593,498	33,289,559	30,497,424	-	169,416,042
Non-current assets ¹	60,433,992	7,332,215	1,037,995	2,420,079	4,772,390	(665,140)	75,331,531

¹ Total of non-current assets other than financial instruments, deferred tax assets, and investments in associates and joint ventures.

(4) As of and for the three months ended September 30, 2013

<i>(In millions of Korean won)</i>	Korea	America	Europe	Asia and Africa	China	Intercompany elimination within the group	Consolidated
Total segment revenue	50,330,509	23,769,192	19,172,867	20,228,206	31,150,268	(85,567,543)	59,083,499
Intercompany revenue	(44,848,986)	(5,968,067)	(6,056,718)	(8,695,307)	(19,998,465)	85,567,543	-
Revenue from external customers	5,481,523	17,801,125	13,116,149	11,532,899	11,151,803	-	59,083,499
Non-current assets ¹	60,433,992	7,332,215	1,037,995	2,420,079	4,772,390	(665,140)	75,331,531

¹ Total of non-current assets other than financial instruments, deferred tax assets, and investments in associates and joint ventures.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

26. Related Party Transactions

(A) Sale and purchase transactions

Sales and purchase transactions with related parties for the nine months ended September 30, 2014 and 2013 are as follows:

(1) September 30, 2014

<i>(In millions of Korean won)</i>	Name of Company ¹	Sales	Disposal of fixed assets	Purchases	Purchase of fixed assets
Associates	Samsung SDS	₩ 23,858	₩ -	₩ 1,425,420	₩ 165,878
	Samsung Electro-Mechanics	25,487	110	1,791,478	-
	Samsung Techwin	13,628	-	52,095	60,550
	Other	335,328	10,433	3,619,939	437,430
	Total (associates)	₩ 398,301	₩ 10,543	₩ 6,888,932	₩ 663,858
Joint ventures	Samsung Corning Precision Materials ²	164	-	67,826	-
	Siltronic Samsung Wafer	-	-	112,285	-
	Other	2,029	647	129,254	-
	Total (joint ventures)	₩ 2,193	₩ 647	₩ 309,365	₩ -
Other related parties	Cheil Industries Inc. ³	5,259	-	73,637	312,696
	Samsung SDI	49,695	324,246	785,149	354,004
	Other	191,589	-	1,503,008	81,602
	Total (other related parties)	₩ 246,543	₩ 324,246	₩ 2,361,794	₩ 748,302

¹ Transactions with separate entities that are related parties of the Company.

² During the nine months ended September 30, 2014, the Company sold all of its investment in Samsung Corning Precision Materials.

³ During the nine months ended September 30, 2014, Samsung Everland change its name to Cheil Industries Inc.

(2) September 30, 2013

<i>(In millions of Korean won)</i>	Name of Company ¹	Sales	Disposal of fixed assets	Purchases	Purchase of fixed assets
Associates	Samsung SDS	₩ 26,535	₩ 706	₩ 1,223,236	₩ 253,591
	Samsung Electro-Mechanics	53,246	-	2,092,595	74
	Samsung SNS	9,394	-	119,393	1,817
	Samsung Techwin	10,939	-	65,125	46,176
	Other	162,953	-	2,916,531	236,710
Total (associates)	₩ 263,067	₩ 706	₩ 6,416,880	₩ 538,368	
Joint ventures	Samsung Corning Precision Materials	5,370	-	1,350,260	-
	Siltronic Samsung Wafer	-	-	151,709	-
	Other	968	-	46,898	-
	Total (joint ventures)	₩ 6,338	₩ -	₩ 1,548,867	₩ -
Other related parties	Cheil Industries Inc. ²	8,967	-	386,028	318,354
	Samsung SDI	42,537	-	500,123	1,255
	Other	154,082	-	1,511,251	-
	Total (other related parties)	₩ 205,586	₩ -	₩ 2,397,402	₩ 319,609

¹ Transactions with separate entities that are related parties of the Company.

² During the nine months ended September 30, 2014, Samsung Everland change its name to Cheil Industries Inc

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(B) Balances of receivables and payables

Balances of receivables and payables arising from sales and purchases of goods and services as of September 30, 2014 and December 31, 2013 are as follows:

(1) As of September 30, 2014

<i>(In millions of Korean won)</i>	Name of Company ¹	Receivables		Payables	
Associates	Samsung SDS	₩	5,077	₩	342,345
	Samsung Electro-Mechanics		3,483		316,101
	Samsung Techwin		2,089		30,059
	Other		78,004		422,258
	Total (associates)	₩	88,653	₩	1,110,763
Joint ventures	Siltronic Samsung Wafer		12,993		10,130
	Other		504		35,980
	Total (joint ventures)	₩	13,497	₩	46,110
Other related parties	Cheil Industries Inc. ²		188,432		209,742
	Samsung SDI		3,950		158,929
	Other		26,509		147,214
	Total (other related parties)	₩	218,891	₩	515,885

¹ Balances due from and to separate entities that are related parties of the Company.

² During the nine months ended September 30, 2014, Samsung Everland change its name to Cheil Industries Inc.

(2) As of December 31, 2013

<i>(In millions of Korean won)</i>	Name of Company ¹	Receivables		Payables	
Associates	Samsung SDS	₩	11,319	₩	479,417
	Samsung Electro-Mechanics		5,972		168,494
	Samsung Techwin		1,879		44,286
	Other		44,211		330,348
	Total (associates)	₩	63,381	₩	1,022,545
Joint ventures	Samsung Corning Precision Materials		3,514		266,400
	Siltronic Samsung Wafer		-		1,454
	Other		3		25
	Total (joint ventures)	₩	3,517	₩	267,879
Other related parties	Cheil Industries Inc. ²		188,982		282,777
	Samsung SDI		4,863		39,207
	Other		45,997		172,500
	Total (other related parties)	₩	239,842	₩	494,484

¹ Balances due from and to separate entities that are related parties of the Company.

² During the nine months ended September 30, 2014, Samsung Everland change its name to Cheil Industries Inc.

(C) Key management compensation

Key management includes directors (executive and non-executive) and members of the Executive Committee. The compensation paid or payable for employee services for the nine months ended September 2014 and 2013 consists of:

<i>(In millions of Korean won)</i>	2014		2013	
Salaries and other short-term employee benefits	₩	17,865	₩	6,241
Termination benefits		730		555
Other long-term benefits		5,353		5,552

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

27. Business Combination

Samsung Electronics America, the Company's subsidiary, acquired 100% of the equity shares of SmartThings on August 18, 2014.

(A) Overview of the acquired company

Name of the acquired company	SmartThings, Inc.
Headquarters location	Washington D.C. USA.
Representative director	Alexander Hawkinson
Classification of the acquired company	Non-listed company

(B) Purchase price allocation

<i>(In millions of Korean won)</i>	Amount
I. Consideration transferred	₩ 166,546
II. Identifiable assets and liabilities	
Cash and cash equivalents	2,471
Trade and other receivables	667
Inventories	1,208
Property, plant and equipment	126
Intangible assets	47,763
Trade and other payables	(5,681)
Deferred income tax liabilities	(13,225)
Total net identifiable assets	33,329
III. Goodwill	₩ 133,217

Had SmartThings been consolidated from January 1, 2014, revenues would increase by ₩2,469 million and net loss would increase by ₩6,786 million on the consolidated statement of income. The revenues and net loss contributed by SmartThings after the consolidation date of Aug 18, 2014 amount to ₩ 718 million and ₩ 2,376 million, respectively.