

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

1.1 Company Overview

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

The Company and its subsidiaries (collectively referred to as the “Group”) 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 systems, 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*. The Company, as the controlling company, consolidates its 156 subsidiaries including Samsung Display and Samsung Electronics America. The Group also applies the equity method of accounting for its 31 affiliates, including Samsung Electro-Mechanics.

1.2 Consolidated Subsidiaries

(A) The consolidated subsidiaries as of March 31, 2016 are as follows:

Area	Subsidiaries	Industry	Percentage of ownership ¹
	Samsung Display (SDC)	Manufacture and sale of display panels	84.8
	SU Materials	Manufacture of LCD components	50.0
	STECO	Manufacture of semiconductor components	70.0
	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
Domestic	Samsung Electronics Logitech	General logistics agency	100.0
	Samsung Medison	Medical equipment	68.5
	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 #26	Technology business, Venture capital investments	99.0
	Samsung Venture Capital Union #27	Technology business, Venture capital investments	99.0
	Samsung Venture Capital Union #28	Technology business, Venture capital investments	99.0
	Samsung Venture Capital Union #29	Technology business, Venture capital investments	99.0

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Area	Subsidiaries	Industry	Percentage of ownership ¹
	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 International (SII)	Manufacture of TV/monitors	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
	Samsung Electronics Latinoamerica (SELA)	Sale of electronic devices	100.0
America	Samsung Electronics Venezuela (SEVEN)	Marketing and services	100.0
	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)	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
	Simpress	Sale of printing solutions	100.0
	Samsung Pay	Develop and provide mobile payment service	100.0
	Prismview(formerly YESCO Electronics)	Manufacture and sale of LED displays	100.0
	Beijing Integrated Circuit Industry International Fund (Beijing Fund)	Venture capital investments	75.8
	Stellus Technologies	Manufacture and sale of server semiconductor storage system	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
Europe/CIS	Samsung Electronics Czech and Slovak (SECZ)	Sale of electronic devices	100.0
	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 Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Area	Subsidiaries	Industry	Percentage of ownership ¹
	Samsung Electronics Portuguesa (SEP)	Sale of electronic devices	100.0
	Samsung Electronics Nordic (SENA)	Sale of electronic devices	100.0
	Samsung Semiconductor Europe (SSEL)	Sale of semiconductor/LCD	100.0
	Samsung Electronics Austria (SEAG)	Sale of electronic devices	100.0
	Samsung Electronics Slovakia (SESK)	Manufacture of TV/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
	SonoAce Deutschland (SMDE)	Medical equipment	100.0
	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
Europe/CIS (Cont.)	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 TV	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
	Samsung Electronics Caucasus (SECC)	Marketing	100.0
	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
Middle East and Africa	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 Maghreb Arab (SEMAG)	Sale of electronic devices	100.0
	Samsung Electronics South Africa Production (SSAP)	Manufacture of TV/monitors	100.0

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Area	Subsidiaries	Industry	Percentage of ownership ¹
Asia (Except China)	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 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	100.0
	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 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 Vietnam (SDV)	Manufacture of LCD	100.0	
Samsung Electronics HCMC CE Complex (SEHC)	Manufacture of CE	100.0	
China	Samsung Display Dongguan (SDD)	Manufacture of LCD	100.0
	Samsung Display Tianjin (SDT)	Manufacture of LCD	95.0
	Samsung Electronics Hong Kong (SEHK)	Sale of electronic devices	100.0
	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 R&D Institute 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 TV/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 Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Area	Subsidiaries	Industry	Percentage of ownership ¹
	Samsung Suzhou Module (SSM)	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 mobile communication and network equipment	100.0
	Samsung Semiconductor (China) R&D (SSCR)	R&D	100.0
China (Cont.)	Samsung Electronics China R&D Center (SCRC)	R&D	100.0
	Samsung (China) Semiconductor (SCS)	Manufacture of semiconductor	100.0
	Samsung Electronics (Beijing) Service (SBSC)	Services	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

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

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(1) 2016

<i>(In millions of Korean won)</i>	As of March 31, 2016		For the three months ended March 31, 2016	
	Assets	Liabilities	Sales	Net Income (Loss)
Samsung Display (SDC)	\ 38,967,332	\ 6,242,963	\ 5,613,160	\ (152,716)
Samsung Electronics America (SEA)	15,904,865	8,806,083	8,571,121	(163,544)
Samsung (China) Investment(SCIC)	12,604,471	10,802,381	2,779,108	103,932
Samsung (China) Semiconductor(SCS)	9,652,643	5,200,304	1,049,411	274,901
Samsung Electronics Vietnam(SEV)	9,099,326	1,939,103	5,180,336	614,503
Samsung Electronics Europe Holding(SEEH)	7,963,010	6,074,718	-	5,738
Samsung Semiconductor(SSI)	7,038,336	3,187,031	4,172,171	8,567
Samsung Electronics Vietnam THAINGUYEN(SEVT)	6,936,428	3,732,459	5,482,822	639,875
Samsung Electronics Huizhou(SEHZ)	6,519,143	1,849,222	3,828,768	241,655
Samsung Austin Semiconductor(SAS)	5,654,526	2,247,999	1,120,321	29,451
Samsung India Electronics(SIEL)	4,268,258	2,529,068	2,326,743	247,626
Samsung Asia Private(SAPL)	4,191,006	523,412	357,361	376
Samsung Electronica da Amazonia(SEDA)	3,689,636	1,259,382	1,371,980	160,080
Shanghai Samsung Semiconductor(SSS)	3,406,111	2,785,739	4,291,782	39,658
Samsung Suzhou LCD(SSL)	2,741,298	1,645,704	216,720	(50,658)
Thai Samsung Electronics(TSE)	2,017,530	474,779	1,111,558	60,145
Samsung Electronics Slovakia(SESK)	1,935,129	357,270	821,862	32,231
Samsung Electronics GmbH(SEG)	1,914,842	1,830,341	1,664,018	26,071
Samsung Electronics Europe Logistics(SELS)	1,862,123	1,481,175	3,337,716	282,328
Tianjin Samsung Telecom Technology(TSTC)	1,746,026	396,986	1,170,373	59,432
Samsung Display Vietnam(SDV)	1,475,495	1,627,831	957,429	11,022
Samsung Display Dongguan(SDD)	1,379,322	467,948	1,277,819	24,881
Samsung Electronics Benelux(SEBN)	1,329,779	326,100	653,823	6,769
Samsung Electronics Hungarian(SEH)	1,311,399	232,659	634,032	39,297
Samsung Electronics (UK)(SEUK)	1,297,498	882,867	1,218,934	41,091

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(2) 2015

<i>(In millions of Korean won)</i>	As of December 31, 2015		For the three months ended March 31, 2015	
	Assets	Liabilities	Sales	Net Income (Loss)
Samsung Display (SDC)	₩ 39,225,460	₩ 6,586,259	₩ 6,654,684	₩ 408,248
Samsung Electronics America(SEA)	14,875,687	7,562,099	7,590,758	34,583
Samsung (China) Investment(SCIC)	12,748,395	11,040,055	3,138,366	131,675
Samsung (China) Semiconductor(SCS)	9,742,388	5,537,446	535,522	44,943
Samsung Semiconductor(SSI)	8,288,391	4,379,980	4,651,184	15,705
Samsung Electronics Vietnam(SEV)	7,829,507	1,155,075	4,205,601	412,951
Samsung Electronics Europe Holding(SEEH)	6,989,207	5,223,523	-	2,138
Samsung Electronics Vietnam THAINGUYEN(SEVT)	6,571,798	3,940,926	4,343,342	281,898
Samsung Electronics Huizhou(SEHZ)	6,192,974	1,738,095	4,410,885	187,194
Samsung Austin Semiconductor(SAS)	6,179,289	2,746,852	593,269	21,618
Samsung Asia Private(SAPL)	4,227,798	504,256	391,784	13,493
Shanghai Samsung Semiconductor(SSS)	3,792,437	3,207,942	2,588,725	30,669
Samsung India Electronics(SIEL)	3,723,127	2,204,333	1,947,753	41,062
Samsung Electronica da Amazonia(SEDA)	3,114,334	1,021,869	1,741,065	208,375
Samsung Suzhou LCD(SSL)	2,784,122	1,634,304	249,984	25,595
Tianjin Samsung Telecom Technology(TSTC)	2,075,123	778,133	2,060,961	97,540
Samsung Electronics Europe Logistics(SELS)	1,894,614	1,793,917	3,104,293	215,808
Thai Samsung Electronics(TSE)	1,889,410	416,382	1,036,638	71,512
Samsung Electronics Slovakia(SESK)	1,888,341	373,886	929,502	42,935
Samsung Electronics GmbH(SEG)	1,820,922	1,762,978	1,458,805	(149,360)
Samsung Display Dongguan(SDD)	1,276,263	384,963	1,158,269	19,793
Samsung Electronics Benelux(SEBN)	1,264,497	291,332	565,191	28,821
Samsung Electronics Hungarian(SEH)	1,254,673	231,785	687,322	14,368
Samsung Electronics Taiwan(SET)	1,253,480	918,482	1,258,187	10,264
Samsung Electronics (UK)(SEUK)	1,133,512	745,126	948,341	64,512

(C) Changes in scope of consolidation

Subsidiaries excluded from the consolidation for the three months ended March 31, 2016:

Area	Subsidiary	Description
Europe/CIS	Samsung Russia Service Centre(SRSC)	Merger ¹
Asia (Except China)	Samsung Telecommunications Malaysia(STM)	Liquidation
	Future Technology & Service	Liquidation

¹ Samsung Electronics Rus Company (SERC), a subsidiary of the Group, merged with Samsung Russia Service Centre (SRSC) on February 1, 2016.

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

2.1 Basis of Presentation

The interim consolidated financial statements for the three months ended March 31, 2016, 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 at the reporting date.

(A) New and amended standards adopted by the Group

The Group applied the following amended and enacted standards for the annual period beginning on January 1, 2016:

Amendment to Korean IFRS 1001, Presentation of Financial Statements

The amendment to K-IFRS 1001, *Presentation of Financial Statements*, specifies that omission, addition and aggregation of presented items is allowed if the information is not material. Also, this standard clarifies share of the other comprehensive income of associates and joint ventures accounted for using the equity method to be presented as line items classified by whether it will be reclassified subsequently to profit or loss. Some of requirements were supplemented including the order in which an entity presents items. There is no material impact of the application of this amendment on the consolidated financial statements.

(B) New and amended standards not adopted by the Group

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2016, and not early adopted by the Group, are as follows:

Korean IFRS 1109, Financial Instruments

The new Standard issued in December 2015 regarding financial instruments replaces Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*. Korean IFRS 1109, *Financial Instruments*, requires financial assets to be classified and measured on the basis of the holder's business model and the instrument's contractual cash flow characteristics. The Standard requires a financial instrument to be classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss, and provides guidance on accounting for related gains and losses. The impairment model is changed into an expected credit loss model, and changes in expected credit losses are recognized in profit or loss. The new Standard is effective for the financial year beginning on or after January 1, 2018, but early adoption is allowed. Early adoption of only the requirements related to financial liabilities designated at fair value through profit or loss is also permitted. The Group is in the process of determining the effects resulting from the adoption of the new Standard.

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Korean IFRS 1115, Revenue from Contracts with Customers

The new Standard for the recognition of revenue issued in December 2015 will replace Korean IFRS 1018, Revenue, Korean IFRS 1011, Construction Contracts, and related Interpretations. Korean IFRS 1115, Revenue from Contracts with Customers, will replace the risk-and-reward model under the current standards and is based on the principle that revenue is recognized when control of goods or services transfer to the customer by applying the five-step process. Key changes to current practices include guidance on separate recognition of distinct goods or services in any bundled arrangement, constraint on recognizing variable consideration, criteria on recognizing revenue over time, and increased disclosures. The new Standard is effective for annual reporting beginning on or after January 1, 2018, but early application is permitted. The Group is in the process of determining the effects resulting from the adoption of the new Standard.

2.2 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, 2015, except changes in accounting policies applied in the financial year beginning on January 1, 2016 (Note 2.1) and as described below.

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

2.3 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 ₩1,201.85 to US \$1, the average exchange rate for the three month period ended in March 31, 2016. 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 U.S. dollars at this or at any other rate.

2.4 Critical Accounting Estimates and Assumptions

In preparing the interim consolidated financial statements, the management of the Group 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 the interim consolidated financial statements are consistent with those made in the preparation of the annual consolidated financial statements for the year ended December 31, 2015, except for the estimation methodologies applied in deriving corporate income tax.

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. Financial Instruments by Category

Categorizations of financial assets and liabilities as of March 31, 2016 and December 31, 2015, are as follows:

(1) As of March 31, 2016

<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	₩	-	₩	24,769,756	₩	-	₩	24,769,756
Short-term financial instruments		-		42,013,517		-		42,013,517
Short-term available-for-sale financial assets		-		-	5,829,204			5,829,204
Trade receivables		-		25,505,630		-		25,505,630
Long-term available-for-sale financial assets		-		-	8,441,533			8,441,533
Others		74,712		3,286,676		-		3,361,388
Total	₩	74,712	₩	95,575,579	₩	14,270,737	₩	109,921,028

<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 payables	₩	-	₩	7,829,743	₩	-	₩	7,829,743
Short-term borrowings		-		1,936,504	7,528,677			9,465,181
Other payables		-		9,993,849		-		9,993,849
Current portion of long-term liabilities		-		221,055		-		221,055
Debentures		-		1,211,856		-		1,211,856
Long-term borrowings		-		367,543		-		367,543
Long-term other payables		316,909		2,638,747		-		2,955,656
Others		82,228		8,204,613		-		8,286,841
Total	₩	399,137	₩	32,403,910	₩	7,528,677	₩	40,331,724

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(2) As of December 31, 2015

<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	₩ -	₩ 22,636,744	₩ -	₩ 22,636,744
Short-term financial instruments	-	44,228,800	-	44,228,800
Short-term available-for-sale financial assets	-	-	4,627,530	4,627,530
Trade receivables	-	25,168,026	-	25,168,026
Long-term available-for-sale financial assets	-	-	8,332,480	8,332,480
Others	63,177	3,483,257	-	3,546,434
Total	₩ 63,177	₩ 95,516,827	₩ 12,960,010	₩ 108,540,014

<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 payables	₩ -	₩ 6,187,291	₩ -	₩ 6,187,291
Short-term borrowings	-	2,416,977	8,738,448	11,155,425
Other payables	-	7,625,490	-	7,625,490
Current portion of long-term liabilities	-	221,548	-	221,548
Debentures	-	1,230,448	-	1,230,448
Long-term borrowings	-	266,542	-	266,542
Long-term other payables	312,738	2,406,936	-	2,719,674
Others	38,829	7,908,569	-	7,947,398
Total	₩ 351,567	₩ 28,263,801	₩ 8,738,448	₩ 37,353,816

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(A) Details of long-term available-for-sale financial assets as of March 31, 2016 and December 31, 2015, are as follows:

<i>(In millions of Korean won)</i>	March 31, 2016	December 31, 2015
Equity securities - Listed	₩ 4,531,476	₩ 4,674,753
Equity securities - Non-listed	3,788,280	3,498,655
Debt securities ¹	121,777	159,072
Total	₩ 8,441,533	₩ 8,332,480

¹ The maximum exposure to credit risk of available-for-sale debt securities is the carrying value at the reporting date.

(B) Details of listed equity securities as of March 31, 2016 and December 31, 2015, are as follows:

<i>(In millions of Korean won)</i>	March 31, 2016			December 31, 2015	
	Number of Shares Owned	Percentage of Ownership (%)	Acquisition Cost	Book Value (Market Value)	Book Value (Market Value)
Samsung SDI ¹	13,462,673	19.6	₩ 2,180,953	₩ 1,332,805	₩ 1,534,745
Samsung Heavy Industries	40,675,641	17.6	258,299	449,466	441,331
Hotel Shilla	2,004,717	5.1	13,957	133,314	154,965
Cheil Worldwide	14,498,725	12.6	223,941	246,478	300,124
iMarket Korea	647,320	1.8	324	12,267	16,377
SFA	1,822,000	10.2	38,262	110,595	90,098
Wonik IPS	7,220,216	9.0	63,249	80,144	81,949
ASML	12,595,575	2.9	726,024	1,470,248	1,331,450
Rambus	4,788,125	4.4	92,682	75,943	65,039
Seagate Technology	12,539,490	4.2	218,544	498,295	538,766
Sharp ¹	35,804,000	2.1	122,535	47,389	43,502
Wacom ¹	8,398,400	5.1	62,013	41,127	39,330
Others ¹			45,607	33,405	37,077
Total			₩ 4,046,390	₩ 4,531,476	₩ 4,674,753

¹ Impairment losses on listed equity securities resulting from the decline in realizable value below acquisition cost amounted to ₩732,542 million for the years ended December 31, 2015.

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, net of impairment loss and the current fair value is recorded within other components of equity, net of tax effects (unrealized gains or losses on available-for-sale financial assets).

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5. Inventories

Inventories as of March 31, 2016 and December 31, 2015, are as follows:

<i>(In millions of Korean won)</i>	March 31, 2016			December 31, 2015		
	Gross Amount	Valuation Allowance	Book Value	Gross Amount	Valuation Allowance	Book Value
Finished goods	₩ 5,539,968	₩ (170,892)	₩ 5,369,076	₩ 5,956,413	₩ (186,953)	₩ 5,769,460
Work in process	6,840,647	(546,528)	6,294,119	6,142,964	(363,661)	5,779,303
Raw materials and supplies	5,986,750	(287,110)	5,699,640	6,082,185	(222,923)	5,859,262
Materials in transit	1,387,047	-	1,387,047	1,403,769	-	1,403,769
Total	₩19,754,412	₩(1,004,530)	₩18,749,882	₩19,585,331	₩(773,537)	₩18,811,794

6. Investments in Associates and Joint Ventures

(A) Changes in investments in associates and joint ventures for the three months ended March 31, 2016 and 2015, are as follows:

<i>(In millions of Korean won)</i>	March 31, 2016	March 31, 2015
Balance as of January 1	₩ 5,276,348	₩ 5,232,461
Acquisition	4,848	66,700
Disposal ¹	(1,339,209)	(2,278)
Share of profit	9,147	55,208
Others ²	(8,785)	(117,665)
Balance as of March 31	₩ 3,942,349	₩ 5,234,426

¹ The Group sold its entire stake in Samsung Card during the three months ended March 31, 2016.

² Others consist of dividends, impairment and effects of changes in foreign exchange rates.

(B) Major investments in associates and joint ventures as of March 31, 2016, are as follows:

(1) Investments in associates

Investee	Nature of Relationship with Associate	Percentage of Ownership ¹ (%)	Principal Business Location
Samsung Electro-Mechanics	Manufacture and supply electronic components including passive components, circuit boards, and modules	23.7	Korea
Samsung SDS	Provide IT services including computer programming, system integration and management	22.6	Korea
Samsung Biologics	New business investment	46.8	Korea

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

(2) Investments in joint ventures

Investee	Nature of Relationship with Joint Venture	Percentage of Ownership ¹ (%)	Principal Business Location
Samsung Corning Advanced Glass	Manufacture and supply industrial glass devices	50.0	Korea

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

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(C) Details of investments in associates and joint ventures as of March 31, 2016 and December 31, 2015, are as follows:

(1) Investments in associates

(In millions of Korean won)

Investee	Acquisition cost	March 31, 2016	
		Net asset value of equity shares ¹	Book value
Samsung Card	₩ -	₩ -	₩ -
Samsung Electro-Mechanics	359,237	988,851	987,131
Samsung SDS	147,963	1,054,791	1,079,270
Samsung Biologics	545,665	1,285,571	1,295,588
Others	589,533	186,239	329,323
Total	₩ 1,642,398	₩ 3,515,452	₩ 3,691,312

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

(In millions of Korean won)

Investee	Acquisition cost	December 31, 2015	
		Net asset value of equity shares ¹	Book value
Samsung Card	₩ 1,538,540	₩ 2,504,778	₩ 1,338,679
Samsung Electro-Mechanics	359,237	987,695	994,489
Samsung SDS	147,963	1,036,142	1,060,396
Samsung Biologics	545,665	1,300,185	1,310,202
Others	583,756	191,272	323,513
Total	₩ 3,175,161	₩ 6,020,072	₩ 5,027,279

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

(2) Investments in joint ventures

(In millions of Korean won)

Investee	Acquisition cost	March 31, 2016	
		Net asset value of equity shares ¹	Book value
Samsung Corning Advanced Glass	₩ 215,000	₩ 187,455	₩ 187,402
Others	259,977	108,244	63,635
Total	₩ 474,977	₩ 295,699	₩ 251,037

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

(In millions of Korean won)

Investee	Acquisition cost	December 31, 2015	
		Net asset value of equity shares ¹	Book value
Samsung Corning Advanced Glass	₩ 215,000	₩ 188,431	₩ 188,371
Others	259,977	104,440	60,698
Total	₩ 474,977	₩ 292,871	₩ 249,069

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

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(D) Details of the valuation of investments in associates and joint ventures under the equity method, are as follows:

(1) For the three months ended March 31, 2016

<i>(In millions of Korean won)</i>	Balance as of January 1	Gain/loss on valuation	Other comprehensive income/loss	Others¹	Balance as of March 31
Samsung Card	₩ 1,338,679	₩ -	₩ -	₩ (1,338,679)	₩ -
Samsung Electro-Mechanics	994,489	(1,220)	2,708	(8,846)	987,131
Samsung SDS	1,060,396	29,097	(1,486)	(8,737)	1,079,270
Samsung Biologics	1,310,202	(12,338)	(152)	(2,124)	1,295,588
Samsung Corning Advanced Glass	188,371	(969)	-	-	187,402
Others	384,211	(5,423)	1,978	12,192	392,958
Total	₩ 5,276,348	₩ 9,147	₩ 3,048	₩ (1,346,194)	₩ 3,942,349

¹ Others consist of acquisitions, disposals, dividends, impairment and effects of changes in foreign exchange rates.

(2) For the three months ended March 31, 2015

<i>(In millions of Korean won)</i>	Balance as of January 1	Gain/loss on valuation	Other comprehensive income/loss	Others¹	Balance as of March 31
Samsung Card	₩ 2,354,026	₩ 30,983	₩ 10,560	₩ (43,219)	₩ 2,352,350
Samsung Electro-Mechanics	1,040,404	11,969	(39,015)	(14,084)	999,274
Samsung SDS	951,776	20,263	(2,727)	(8,733)	960,579
Samsung Biologics	293,975	(7,687)	(4,298)	66,700	348,690
Samsung Corning Advanced Glass	195,930	(1,956)	6	1	193,981
Others	396,350	1,636	(8,578)	(9,856)	379,552
Total	₩ 5,232,461	₩ 55,208	₩ (44,052)	₩ (9,191)	₩ 5,234,426

¹ Others consist of acquisitions, disposals, dividends, impairment and effects of changes in foreign exchange rates.

Samsung Electronics Co., Ltd. and its 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 March 31, 2016 and December 31, 2015, and for the three months ended March 31, 2016 and 2015, is as follows:

(In millions of Korean won)

Investee	2016		
	Samsung Electro-Mechanics	Samsung SDS	Samsung Biologics
1. Condensed financial information			
Condensed statements of financial position:			
Current assets	₩ 2,847,069	₩ 3,870,430	₩ 267,537
Non-current assets	4,506,824	2,374,443	5,782,299
Current liabilities	1,834,988	1,189,584	2,031,732
Non-current liabilities	1,193,342	190,011	1,270,475
Non-controlling interests	98,508	193,924	-
Condensed statements of comprehensive income:			
Revenue	1,604,334	1,745,036	88,751
Profit(Loss) from continuing operations ¹	31,283	127,850	(25,702)
Other comprehensive income (loss) ¹	11,576	(6,583)	(1,504)
Total comprehensive income (loss) ¹	42,859	121,267	(27,206)
2. Dividends from associates			
Dividends	₩ 8,847	₩ 8,736	₩ -

¹ Income (Loss) attributable to owners of the parent.

(In millions of Korean won)

Investee	2015			
	Samsung Card ¹	Samsung Electro-Mechanics	Samsung SDS	Samsung Biologics
1. Condensed financial information				
Condensed statements of financial position:				
Current assets	₩ 19,070,997	₩ 2,729,971	₩ 3,845,289	₩ 192,854
Non-current assets		4,539,482	2,486,390	5,767,640
Current liabilities	12,382,672	1,768,254	1,389,915	1,911,669
Non-current liabilities		1,185,816	164,913	1,273,990
Non-controlling interests	-	93,268	188,091	-
Condensed statements of comprehensive income:				
Revenue	772,013	1,776,514	1,915,524	24,986
Profit(Loss) from continuing operations ²	109,085	36,759	88,397	(20,314)
Other comprehensive income (loss) ²	28,199	(35,187)	(12,077)	(9,429)
Total comprehensive income (loss) ²	137,284	1,572	76,320	(29,743)
2. Dividends from associates				
Dividends	₩ 43,393	₩ 13,270	₩ 8,736	₩ -

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 its 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 March 31, 2016 and December 31, 2015, and for the three months ended March 31, 2016 and 2015, is as follows:

<i>(In millions of Korean won)</i>	Samsung Corning Advanced Glass			
	2016		2015	
1. Condensed financial information				
Condensed statements of financial position:				
Current assets	₩	224,525	₩	226,720
- Cash and cash equivalent		16,928		13,383
Non-current assets		177,070		183,313
Current liabilities		25,136		32,158
- Current financial liabilities ¹		9,136		14,111
Non-current liabilities		1,548		1,013
Condensed statements of comprehensive income²:				
Revenue		65,011		71,191
Depreciation and amortization		612		446
Interest income		340		290
Income tax expense		(730)		(556)
Net loss from continuing operations ³		(1,952)		(4,644)
Other comprehensive income (loss) ³		-		-
Total comprehensive loss ³		(1,952)		(4,644)
2. Dividends from joint ventures				
Dividends	₩	-	₩	-

¹ Trade payables, other payables, and provisions are excluded.

² Amounts relate to the three months ended March 31, 2016 and 2015.

³ Profit (Loss) attributable to owners of the parent.

- (3) Profit (loss) amounts attributable to owners of the parent from associates and joint ventures which are not individually material for the three months ended March 31, 2016 and 2015, are as follows:

<i>(In millions of Korean won)</i>	2016		2015	
Investee	Associates	Joint ventures	Associates	Joint ventures
Income (loss) from continuing operations ¹	₩ (5,854)	₩ 431	₩ 3,239	₩ (3,739)
Other comprehensive income (loss) ¹	207	3,373	3,187	(6,507)
Total comprehensive income (loss) ¹	₩ (5,647)	₩ 3,804	₩ 6,426	₩ (10,246)

¹ Income (Loss) attributable to owners of the parent.

- (F) Fair value of marketable investments in associates as of March 31, 2016 and December 31, 2015, is as follows:

<i>(In millions of Korean won and number of shares)</i>	March 31, 2016		December 31, 2015
	Number of shares held	Market value	Market value
Samsung Electro-Mechanics	17,693,084	1,040,353	1,112,895
Samsung SDS	17,472,110	3,057,619	4,437,916

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Property, Plant and Equipment

(A) Changes in property, plant and equipment for the three months ended March 31, 2016 and 2015, are as follows:

<i>(In millions of Korean won)</i>	2016		2015	
Balance as of January 1	₩	86,477,110	₩	80,872,950
Acquisition and capital expenditures		4,570,445		7,212,625
Business combinations		-		34,776
Depreciation		(5,121,375)		(4,563,385)
Disposals/scrap/impairment		(27,502)		(135,202)
Others ¹		(333,331)		20,658
Balance as of March 31	₩	85,565,347	₩	83,442,422

¹ Others include effects of changes in foreign currency exchange rates.

(B) Details of depreciation of property, plant and equipment for the three months ended March 31, 2016 and 2015, are as follows:

<i>(In millions of Korean won)</i>	2016		2015	
Cost of sales	₩	4,640,002	₩	4,128,702
Selling and administrative expenses and others		481,373		434,683
Total	₩	5,121,375	₩	4,563,385

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

8. Intangible Assets

(A) Changes in intangible assets for the three months ended March 31, 2016 and 2015, are as follows:

<i>(In millions of Korean won)</i>	2016	2015
Balance as of January 1	₩ 5,396,311	₩ 4,785,473
Internally generated (development costs)	245,192	304,477
External acquisitions	104,818	115,441
Business combinations	-	374,224
Amortization	(346,944)	(305,944)
Disposals/scrap/impairment	(70,653)	(2,136)
Others ¹	46,307	66,983
Balance as of March 31	₩ 5,375,031	₩ 5,338,518

¹ Others include effects of changes in foreign currency exchange rates.

(B) Details of amortization of intangible assets for the three months ended March 31, 2016 and 2015, are as follows:

<i>(In millions of Korean won)</i>	2016	2015
Cost of sales	₩ 235,036	₩ 178,168
Selling and administrative expenses and others	111,908	127,776
Total	₩ 346,944	₩ 305,944

9. Borrowings

Details of the carrying amounts of borrowings as of March 31, 2016 and December 31, 2015 are as follows:

<i>(In millions of Korean won)</i>	Financial Institutions	Annual Interest Rates (%) as of March 31, 2016	March 31, 2016	December 31, 2015
Short-term borrowings				
Collateralized borrowings ¹	Woori Bank and others	0.1 ~ 11.8	₩ 7,528,677	₩ 8,738,448
Non-collateralized borrowings	Citibank and others	0.3 ~ 18.3	1,936,504	2,416,977
Total			₩ 9,465,181	₩ 11,155,425
Current portion of long-term borrowings				
Bank borrowings	US Bank	3.5	₩ 14	₩ 454
Financial lease liabilities ²	CSSD and others	1.1 ~ 15.7	15,610	15,652
Total			₩ 15,624	₩ 16,106
Long-term borrowings				
Bank borrowings	Citibank and others	1.1 ~ 19.8	₩ 297,149	₩ 193,598
Financial lease liabilities ²	CSSD and others	1.1 ~ 15.7	70,394	72,944
Total			₩ 367,543	₩ 266,542

¹ Collateralized borrowings are secured by trade receivables.

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

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. Debentures

Details of the carrying amount of debentures as of March 31, 2016 and December 31, 2015 are as follows:

<i>(In millions of Korean won)</i>	March 31, 2016	December 31, 2015
Korean won denominated debentures (A)	₩ -	₩ -
Foreign currency denominated debentures (B)	1,211,856	1,230,448
Total	₩ 1,211,856	₩ 1,230,448

(A) Details of Korean won denominated debentures as of March 31, 2016 and December 31, 2015 are as follows:

<i>(In millions of Korean won)</i>	Issue Date	Due Date	Annual Interest Rates (%) as of March 31, 2016	March 31, 2016	December 31, 2015
Unsecured debentures	2011.11.17	2016.11.17	4.2	₩ 200,000	₩ 200,000
Less: Current portion				(200,000)	(200,000)
Less: Discounts				-	-
Total				₩ -	₩ -

The debenture has been issued by Samsung Display and will be repaid upon maturity.

(B) Details of foreign currency denominated debentures as of March 31, 2016 and December 31, 2015 are as follows:

<i>(In millions of Korean Won)</i>	Issue Date	Due Date	Annual Interest Rates (%) as of March 31, 2016	March 31, 2016	December 31, 2015
US dollar denominated straight bonds ¹	1997.10.02	2027.10.01	7.7	₩ 69,210 (US\$60 million)	₩ 70,320 (US\$60 million)
US dollar denominated unsecured bonds ²	2012.4.10	2017.4.10	1.8	1,153,500 (US\$1,000 million)	1,172,000 (US\$1,000 million)
Less: Current Portion				(5,767)	(5,860)
Less: Discounts				(5,087)	(6,012)
Total				₩ 1,211,856	₩ 1,230,448

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 Samsung Electronics America issued dollar denominated unsecured bonds. Repayment of these debentures is due on the date of maturity and interest is paid semi-annually.

Samsung Electronics Co., Ltd. and its 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 March 31, 2016 and December 31, 2015 are as follows:

<i>(In millions of Korean won)</i>	March 31, 2016	December 31, 2015
Present value of funded defined benefit obligations	₩ 7,928,081	₩ 7,693,919
Present value of unfunded defined benefit obligations	142,259	138,860
Subtotal	8,070,340	7,832,779
Fair value of plan assets	(7,476,683)	(7,473,959)
Total	₩ 593,657	₩ 358,820

(B) The amounts recognized in the consolidated statements of income for the three months ended March 31, 2016 and 2015 are as follows:

<i>(In millions of Korean won)</i>	2016	2015
Current service cost	₩ 276,583	₩ 289,985
Net interest cost	4,025	8,899
Others	(7,202)	2,741
Total	₩ 273,406	₩ 301,625

(C) The pension expenses related to defined benefit plans recognized on the consolidated statements of income for the three months ended March 31, 2016 and 2015 are as follows:

<i>(In millions of Korean won)</i>	2016	2015
Cost of sales	₩ 119,656	₩ 132,625
Selling and administrative expenses and others	153,750	169,000
Total	₩ 273,406	₩ 301,625

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Provisions

Changes in the provisions during the three months ended March 31, 2016 are as follows:

<i>(In millions of Korean won)</i>	Warranty (A)	Royalty expenses (B)	Long-term incentives (C)	Bonus (D)	Others (E)	Total
Balance as of January 1	₩ 1,664,526	₩ 4,443,749	₩ 753,553	₩ -	₩ 81,153	₩ 6,942,981
Charged (credited) to the statement of income	646,636	(25,281)	32,395	935,212	4,460	1,593,422
Payment	(524,044)	(742,324)	(212,464)	-	(36,206)	(1,515,038)
Others ¹	7,935	12,146	-	-	(412)	19,669
Balance as of March 31	₩ 1,795,053	₩ 3,688,290	₩ 573,484	₩ 935,212	₩ 48,995	₩ 7,041,034

¹ Others include effects of changes in foreign currency exchange rates.

- (A) The Group accrues warranty reserves for estimated costs of future service, repairs and recalls, based on historical experience and terms of warranty programs.
- (B) The Group recognizes provisions for the estimated royalty expenses that are under negotiation with counterparties. The timing of payment depends on the settlement of the negotiation.
- (C) The Group has a long-term incentive plan for its executives based on a three-year management performance criteria and recognizes a provision for the estimated incentive cost for the accrued period.
- (D) The Group 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.
- (E) The Group makes provisions for the estimated emission expense for the emission in excess of the permits held by the Group for the applicable years. Details of emission rights and liabilities as of March 31, 2016 are as follows:

- (1) Allocated amount of emission permits and estimated amount of emission as of March 31, 2016 are as follows:

<i>(In ten thousand metric tons)</i>	2016
Allocated emission permits	1,007
Estimated volume of emission	1,196

- (2) Changes in the certified emission rights for the three months ended March 31, 2016 are as follows:

<i>(In millions of Korean won)</i>	2016
Balance as of January 1	₩ 7,260
Acquisition	-
Balance as of March 31	₩ 7,260

- (3) Changes in the provisions for emissions for the three months ended March 31, 2016 are as follows:

<i>(In millions of Korean won)</i>	2016
Balance as of January 1	₩ 7,947
Charged to the statement of income	3,869
Balance as of March 31	₩ 11,816

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

13. Commitments and Contingencies

(A) Guarantees

Details of guarantees of debt provided by the Group as of March 31, 2016 and December 31, 2015 are as follows:

<i>(In millions of Korean won)</i>	March 31, 2016	December 31, 2015
Guarantees of debt for housing rental ¹	₩ 60,260	₩ 64,753

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

(B) Litigation

(1) The litigation with Apple Inc. (“Apple”) is ongoing in the United States as of the reporting date. On August 24, 2012, the jury determined that the Group partially infringed Apple’s design and utility patent and should pay damages to Apple. However, on March 1, 2013, the Judge ordered a new trial for a certain portion of the damages, ruling that it was originally miscalculated. On November 21, 2013 a jury verdict was rendered on the recalculated damages amount, and on March 6, 2014, the Judge made a final judgement to confirm the total damages and deny Apple’s bid for a permanent injunction against the Group. The Group appealed the decision on the damages amount on March 7, 2014, and a hearing on the appeal was held on December 4, 2014. On May 18, 2015, the appeals court affirmed in part and reversed in part a previous decision, and remanded it. On June 17, 2015, the Group petitioned for an en banc rehearing regarding the design infringement, and on August 13, 2015, the federal court dismissed the Group’s request. After the remand procedure, the court of first trial announced a partial final judgment on the appeals on September 18, 2015. On October 13, 2015, the immediate appeal was dismissed and on November 19, 2015, the Federal Circuit Court denied an en banc rehearing request. On December 11, 2015, the Group made payment for the damages. On December 14, 2015, the Group filed an appeal to the Supreme Court regarding the design patent infringement ruling. Thereafter, the two parties have submitted in writing to the district court details of supplemental damages incurred in connection with the ruling. On March 21, 2016, the Supreme Court granted the Group’s certiorari petition related to the design patent infringement and on March 22, 2016, the district court stayed remand proceedings including a hearing for supplemental damages and re-trial which was supposed to start from March 28, 2016.

Additionally, on May 5, 2014, the jury in another ongoing patent lawsuit determined that the Group partially infringed Apple’s utility patent and should pay damages to Apple. On November 25, 2014, the first trial judgment was pronounced to confirm the jury’s verdict. The Group appealed on November 25, 2014 and the rehearing was held on January 5, 2016. On August 27, 2014, the Judge denied Apple’s request for a permanent injunction on the Group’s product. However, on September 17, 2015, the appellate court reversed and remanded a previous decision and on December 16, 2015, the Federal Circuit Court denied an en banc hearing request of the Group. On January 18, 2016, the court of first instance ordered a permanent injunction on the Group’s product. On February 26, 2016, the appellate court reversed the first trial judgment and ruled that the Group had not infringed Apple’s some patents and its remaining patents were invalid. Based on the rulings of the appellate court, the Group plans to appeal the permanent injunction. On March 30, 2016, Apple filed a petition for an en banc rehearing about the rulings of the appellate court. The final conclusion and the effect of the patent lawsuits with Apple are uncertain as at the reporting date.

In August 2014, the Group and Apple reached an agreement to withdraw from ongoing litigation in all regions other than the United States, and the Group has withdrawn all non-United States based lawsuits.

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

- (2) The Group is involved in claims, disputes, and investigations conducted by regulatory bodies at the reporting date, including civil claims from some overseas buyers for price-fixing related to the sale of TFT-LCD. Although the outflow of resources and timing of these matters are uncertain, the Group believes the outcome will not have a material impact on the financial condition of the Group.
- (3) In addition, during the normal course of business with numerous companies, the Group 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 Group believes the outcome will not have a material impact on the financial condition of the Group.

(C) Other commitments

Samsung Display entered into a collaboration agreement with Corning Incorporated on October 23, 2013 that includes a condition relating to mutual loss preservation which can cause inflows or outflows of future economic benefits and the Group has recorded an estimated liability as a result of this commitment as of March 31, 2016.

14. Share Capital

The Company's total number of authorized shares is 500,000,000 shares (₩5,000 per share). The Company has issued 145,069,337 shares of common stock and 21,593,427 shares of preferred stock as of March 31, 2016, excluding retired shares. Due to the retirement of shares, the total par value of the shares issued is ₩ 833,314 million (common stock ₩725,347 million and preferred stock ₩107,967 million), which does not agree with paid-in capital of ₩897,514 million.

15. Retained Earnings

Retained earnings as of March 31, 2016 and December 31, 2015 consist of:

<i>(In millions of Korean won)</i>	March 31, 2016	December 31, 2015
Appropriated	₩ 140,709,326	₩ 131,539,594
Unappropriated	42,509,288	53,592,420
Total	₩ 183,218,614	₩ 185,132,014

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

16. Other Components of Equity

(A) Other components of equity as of March 31, 2016 and December 31, 2015 consist of:

<i>(In millions of Korean won)</i>	March 31, 2016	December 31, 2015
Treasury stock	₩ (12,083,441)	₩ (13,442,379)
Unrealized gains on available-for-sale financial assets	1,540,301	1,478,330
Share of other comprehensive income of associates and joint ventures	62,079	362,342
Foreign currency translation	(4,188,385)	(4,091,202)
Remeasurements of net defined benefit liabilities	(1,760,591)	(1,737,809)
Others	40,154	(149,733)
Total	₩ (16,389,883)	₩ (17,580,451)

(B) The Group 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 retirement of shares. Treasury stock as of March 31, 2016 and December 31, 2015 consists of the following:

<i>(In millions of Korean won and number of shares)</i>	March 31, 2016		December 31, 2015	
	Common Stock	Preferred Stock	Common Stock	Preferred Stock
Number of shares	19,571,265	3,634,419	19,902,489	4,285,594
Acquisition cost	₩ 10,793,389	₩ 1,290,052	₩ 11,377,539	₩ 2,064,840

17. Expenses by Nature

Expenses by nature for the three months ended March 31, 2016 and 2015 consist of the following:

<i>(In millions of Korean won)</i>	2016	2015
Changes in finished goods and work in process	₩ (114,432)	₩ (1,137,968)
Raw materials used and merchandise purchased	18,866,930	19,180,417
Wages and salaries	4,874,819	4,714,744
Pension	292,363	313,024
Depreciation	5,121,375	4,563,385
Amortization	346,944	305,944
Welfare	911,630	860,080
Commission and service charges	2,197,277	1,944,909
Others	10,609,534	10,394,016
Total¹	₩ 43,106,440	₩ 41,138,551

¹ Equal to the sum of cost of sales and selling and administrative expenses on the interim consolidated statements of income.

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18. Selling and Administrative Expenses

Selling and administrative expenses for the three months ended March 31, 2016 and 2015 are as follows:

<i>(In millions of Korean won)</i>	2016	2015
1) Selling and administrative expenses		
Wages and salaries	₩ 1,465,022	₩ 1,369,401
Pension	66,480	68,701
Commission and service charges	2,197,277	1,944,909
Depreciation	193,420	172,334
Amortization	58,340	77,517
Advertising	1,122,168	653,799
Sales promotion	1,660,512	1,528,100
Transportation	754,894	798,985
Warranty	764,872	705,881
Others	883,080	1,372,296
2) Research and development expenses		
Total expenses	3,811,709	3,795,718
Capitalized expenses	(245,192)	(304,477)
Total	₩ 12,732,582	₩ 12,183,164

19. Other Non-Operating Income and Expense

Details of other non-operating income and expense for the three months ended March 31, 2016 and 2015 are as follows:

<i>(In millions of Korean won)</i>	2016	2015
Non-operating income		
Dividend income	₩ 124,083	₩ 61,066
Rental income	23,392	22,411
Gain on disposal of investments	358,953	33,786
Gain on disposal of property, plant and equipment	16,121	33,705
Gain on disposal of assets classified as held-for-sale	69,924	-
Others	110,120	215,164
Total	₩ 702,593	₩ 366,132

<i>(In millions of Korean won)</i>	2016	2015
Non-operating expense		
Loss on disposal of property, plant and equipment	₩ 13,071	₩ 33,074
Donations	132,169	120,312
Impairment losses on intangible assets	57,084	1,195
Others	136,312	161,638
Total	₩ 338,636	₩ 316,219

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

20. Financial Income and Expense

(A) Details of financial income and expense for the three months ended March 31, 2016 and 2015 are as follows:

<i>(In millions of Korean won)</i>	2016	2015
Financial income		
Interest income:	₩ 392,981	₩ 442,274
Interest income from loans and receivables	374,505	414,984
Interest income from available-for-sale financial assets	18,476	27,290
Foreign exchange differences	2,429,440	1,644,493
Gains from derivatives	257,508	312,885
Total	₩ 3,079,929	₩ 2,399,652

<i>(In millions of Korean won)</i>	2016	2015
Financial expense		
Interest expense:	₩ 166,481	₩ 166,918
Interest expense from financial liabilities measured at amortized cost	113,590	98,691
Other financial liabilities	52,891	68,227
Foreign exchange differences	2,558,627	1,813,563
Losses from derivatives	281,252	285,016
Total	₩ 3,006,360	₩ 2,265,497

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

21. Income Tax Expense

Income tax expense is recognized based on management's best estimate of the average annual effective income tax rate expected for the full financial year. The average annual tax rate expected as of March 31, 2016 to be effective for the year ended December 31, 2016 is 26.3%.

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

22. Earnings per Share

(A) Basic earnings per share

Basic earnings per share for the three months ended March 31, 2016 and 2015 are calculated as follows:

(1) Common stock

(In millions of Korean won and thousands of number of shares, except per share data)

	2016	2015
Profit attributable to owners of the Parent company	₩ 5,263,506	₩ 4,519,323
Profit available for common stock	4,604,386	3,924,175
Weighted-average number of common shares outstanding	126,647	129,462
Basic earnings per share (in Korean won)	₩ 36,356	₩ 30,311

(2) Preferred stock

(In millions of Korean won and thousands of number of shares, except per share data)

	2016	2015
Profit attributable to owners of the Parent company	₩ 5,263,506	₩ 4,519,323
Profit available for preferred stock	659,120	595,148
Weighted-average number of preferred shares outstanding	18,259	19,625
Basic earnings per preferred share (in Korean won)	₩ 36,098	₩ 30,326

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(B) Diluted earnings per share

The Group had 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. All remaining stock options were exercised during the year ended December 31, 2015, and as a result, basic earnings per share and diluted earnings per share are the same for the three months ended March 31, 2016.

Diluted earnings per share for the three months ended March 31, 2016 and 2015 are calculated as follows:

(1) Common stock

(In millions of Korean won and thousands of number of shares, except per share data)

	2016	2015
Profit available for common stock and common stock equivalents	₩ 4,604,386	₩ 3,924,195
Weighted-average number of shares of common stock and dilutive potential common stock	126,647	129,465
Diluted earnings per share (in Korean won)	₩ 36,356	₩ 30,311

(2) Preferred stock

(In millions of Korean won and thousands of number of shares, except per share data)

	2016	2015
Profit available for preferred stock and preferred stock equivalents	₩ 659,120	₩ 595,128
Weighted-average number of shares of preferred stock and dilutive potential preferred stock	18,259	19,625
Diluted earnings per preferred share (in Korean won)	₩ 36,098	₩ 30,325

Samsung Electronics Co., Ltd. and its 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 three months ended March 31, 2016 and 2015 are as follows:

- Adjustments

<i>(In millions of Korean won)</i>	2016	2015
Adjustments for:		
Income tax expense	₩ 1,869,682	₩ 1,592,828
Finance income	(1,264,395)	(1,373,566)
Finance expense	1,501,635	974,622
Severance and retirement benefits	292,363	313,024
Depreciation	5,121,375	4,563,385
Amortization	346,944	305,944
Bad debt expenses	184,141	72,064
Gain on valuation of equity method	(9,147)	(55,208)
Gain on disposal of property, plant and equipment	(16,121)	(33,705)
Loss on disposal of property, plant and equipment	13,071	33,074
Impairment losses on intangible assets	57,084	1,195
Obsolescence and scrapping of inventories	385,614	153,840
Gain on disposal of investments	(358,953)	(33,786)
Gain on disposal of assets classified as held-for-sale	(69,924)	-
Dividend income	(124,083)	(61,066)
Others	(125,161)	(130,399)
Total	₩ 7,804,125	₩ 6,322,246

- Changes in assets and liabilities arising from operating activities

<i>(In millions of Korean won)</i>	2016	2015
Changes in assets and liabilities :		
Increase in trade receivables	₩ (211,494)	₩ (340,270)
Decrease in other receivables	338,991	919,694
Increase in advances	(19,643)	(21,868)
Increase in prepaid expenses	(978,216)	(351,386)
Increase in inventories	(279,815)	(2,271,425)
Increase in trade payables	1,180,366	1,210,116
Decrease in other payables	(369,042)	(339,643)
Decrease in advances received	(9,973)	(104,390)
Increase in withholdings	236,360	25,788
Decrease in accrued expenses	(2,433,157)	(4,230,031)
Increase in provisions	76,719	855,749
Payment of severance benefits	(121,902)	(80,658)
Others	297,707	(168,002)
Total	₩ (2,293,099)	₩ (4,896,326)

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

24. Financial Risk Management

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

The finance team mainly carries out the Group's financial risk management. With the cooperation of the Group's divisions, 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.

Also, financial risk management officers are dispatched to the regional headquarters of each area including the United States, United Kingdom, Singapore, China, Brazil and Russia to operate the local finance center in accordance with global financial risk management.

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

(A) Market risk

(1) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States, 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.

To minimize foreign exchange risk arising from operating activities, the Group's foreign exchange 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 Group's foreign exchange risk management policy also defines foreign exchange risk, measuring period, controlling responsibilities, management procedures, hedging period and hedge ratio.

The Group 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 to receivables and payables.

(2) Price risk

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

As of March 31, 2016 and December 31, 2015, a price fluctuation in relation to marketable equity securities by 1% would result in changes in other comprehensive income (before income tax) of ₩45,315 million and ₩46,748 million, respectively.

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(3) Interest rate risk

Risk of changes in interest rates for floating interest rate financial instruments is defined as the risk that the fair value of components of the statement of financial position, and future cash flows of interest income (expenses) of a financial instrument, will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk mainly through interest bearing liabilities and assets. The Group's position with regard to interest rate risk exposure is mainly driven by its floating interest rate debt obligations and interest-bearing deposits. The Group implemented policies and operates to minimize uncertainty arising from changes in interest rates and finance costs.

In order to avoid interest rate risk, the Group maintains minimum external borrowings by facilitating cash pooling systems on a regional and global basis. The Group 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 Group monitors and sets the client's and counterparty's credit limit on a periodic basis based on the client's and counterparty's financial conditions, default history and other important factors. Adequate insurance coverage is maintained for accounts receivables related to trading partners situated in higher risk countries.

Credit risk can arise from transactions with financial institutions which include financial instrument transactions such as cash and cash equivalents, savings, and derivative instruments. To minimize such risk, the Group transacts only with banks which have 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 Group's finance team and the local finance center. The Group requires separate approval for contracts with restrictions.

The Group 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 Group, maintaining adequate levels of liquidity risk is critical. The Group strives to achieve this goal by periodically forecasting its capital balance, estimating required cash levels, and managing income and expenses.

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

In addition, the Group 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 its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(D) Capital risk management

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

The Group's capital risk management policy has not changed since the fiscal year ended December 31, 2015. As of March 31, 2016, the Group 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 March 31, 2016 and December 31, 2015 are as follows:

<i>(In millions of Korean won)</i>	March 31, 2016	December 31, 2015
Total liabilities	₩ 62,913,603	₩ 63,119,716
Total equity	178,326,186	179,059,805
Total liabilities to equity ratio	35.3%	35.3%

(E) Fair value estimation

(1) Carrying amounts and fair values of financial instruments by category as of March 31, 2016 and December 31, 2015 are as follows:

<i>(In millions of Korean won)</i>	March 31, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents ¹	₩ 24,769,756	₩ -	₩ 22,636,744	₩ -
Short-term financial instruments ¹	42,013,517	-	44,228,800	-
Short-term available-for-sale financial assets	5,829,204	5,829,204	4,627,530	4,627,530
Trade receivables ¹	25,505,630	-	25,168,026	-
Long-term available-for-sale financial assets ²	8,441,533	8,365,541	8,332,480	8,225,687
Others	3,361,388	3,294,847	3,546,434	3,420,292
Total financial assets	₩ 109,921,028		₩ 108,540,014	
Financial liabilities				
Trade payables ¹	₩ 7,829,743	₩ -	₩ 6,187,291	₩ -
Short-term borrowings ¹	9,465,181	-	11,155,425	-
Other payables ¹	9,993,849	-	7,625,490	-
Current portion of long-term liabilities ¹	221,055	-	221,548	-
Debentures	1,211,856	1,244,930	1,230,448	1,261,783
Long-term borrowings	367,543	340,389	266,542	242,603
Long-term other payables	2,955,656	3,072,866	2,719,674	2,581,985
Others ¹	8,286,841	-	7,947,398	-
Total financial liabilities	₩ 40,331,724		₩ 37,353,816	

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

² Amounts measured at cost (March 31, 2016: ₩75,992 million, December 31, 2015: ₩106,793 million) are 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 its 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>	March 31, 2016			
	Level 1	Level 2	Level 3	Total balance
1) Assets				
Short-term available-for-sale financial assets	₩ -	₩ 5,829,204	₩ -	₩ 5,829,204
Long-term available-for-sale financial assets ¹	4,531,476	71,696	3,762,369	8,365,541
Others	-	73,895	817	74,712
2) Liabilities				
Long-term other payables	₩ -	₩ -	₩ 316,909	₩ 316,909
Others	-	82,229	-	82,229

<i>(In millions of Korean won)</i>	December 31, 2015			
	Level 1	Level 2	Level 3	Total balance
1) Assets				
Short-term available-for-sale financial assets	₩ -	₩ 4,627,530	₩ -	₩ 4,627,530
Long-term available-for-sale financial assets ¹	4,674,753	78,189	3,472,745	8,225,687
Others	-	47,578	15,599	63,177
2) Liabilities				
Long-term other payables	₩ -	₩ -	₩ 312,738	₩ 312,738
Others	-	38,829	-	38,829

¹ Amounts measured at cost (March 31, 2016: ₩75,992 million, December 31, 2015: ₩106,793 million) are 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 Group 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 are not based on observable market data, the instrument is included in Level 3.

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Group 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 Group's quarterly reporting dates. The Group'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 back 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 Group utilizes a present value technique to discount future cash flows using an appropriate 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				
Maltani (formerly Taewon Lighting)	\ 15,860	Discounted cash flow	Permanent growth rate Weighted average cost of capital	-1.00% ~ 1.00% (0%) 7.29%~9.29%(8.28%)
Samsung Venture Investment	7,207	Discounted cash flow	Permanent growth rate Weighted average cost of capital	-1.00% ~ 1.00% (0%) 11.37%~13.37%(12.37%)
Corning Incorporated convertible preferred stock	3,038,880	Trinomial model	Risk adjusted discount rate Price volatility	5.57%~7.57%(6.57%) 29.5%~35.5%(32.5%)
China Star Optoelectronics Technology Co.,Ltd. (CSOT)	278,557	Discounted cash flow	Weighted average cost of capital	9.41%~11.51%(10.46%)
Derivatives				
Embedded derivatives (convertible bonds)	817	Binomial model	Discount rate Stock price volatility	5.39%~6.59%(5.99%) 19.04%~23.27%(21.16%)
Long-term other payables				
Contingent financial liability	316,909	Discounted cash flow	Discount rate	3.81%~4.65%(4.23%)

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(4) Changes in Level 3 instruments:

<i>(In millions of Korean won)</i>	March 31, 2016	March 31, 2015
Balance as of January 1	\ 3,175,606	\ 3,548,095
Purchases	13,830	39,219
Disposals	(43,699)	(3,447)
Amount recognized in profit or loss	(18,953)	2,058
Amount recognized in other comprehensive income	313,518	105,407
Others	5,975	(13,063)
Balance as of March 31	\ 3,446,277	\ 3,678,269

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

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 (other comprehensive income or loss before tax) 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	
	Profit or Loss	Equity	Profit or Loss	Equity
Long-term available-for-sale financial assets ¹	\ -	\ 210,195	\ -	\ (232,938)
Embedded derivatives (convertible bonds) ²	168	168	(161)	(161)
Long-term other payables ³	2,796	2,796	(2,770)	(2,770)
Total	\ 2,964	\ 213,159	\ (2,931)	\ (235,869)

¹ Changes in fair value are calculated by increasing or decreasing the correlation between volatility (29.5%~35.5%) 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 its fair value are calculated by increasing or decreasing the correlation between discount rate and volatility by 10%.

³ The fair value of long-term other payables is calculated by increasing or decreasing the correlation between discount rate and volatility by 10% which are significant unobservable inputs.

Samsung Electronics Co., Ltd. and its 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 three months ended March 31, 2016

<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	26,309,533	58,034,228	35,047,076	21,887,718	12,234,317	119,637,273	(69,855,021)	49,782,252
Intercompany revenue	(15,686,227)	(30,434,291)	(17,871,564)	(10,735,777)	(6,198,710)	(69,855,021)	69,855,021	-
Net revenue ²	10,623,306	27,599,937	17,175,512	11,151,941	6,035,607	49,782,252	-	49,782,252
Depreciation	139,091	335,488	4,425,913	3,247,596	1,123,215	5,121,375	-	5,121,375
Amortization	20,893	43,331	234,440	196,602	33,739	346,944	-	346,944
Operating profit	512,967	3,894,157	2,327,166	2,631,580	(265,219)	6,675,812	-	6,675,812

¹ Includes other amounts not included in specific operating segments.

² Segment net revenue includes intersegment revenues.

(2) For the three months ended March 31, 2015

<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	25,452,193	55,726,720	33,582,070	19,305,753	13,148,326	115,024,157	(67,906,239)	47,117,918
Intercompany revenue	(15,195,210)	(29,839,870)	(16,478,374)	(9,039,038)	(6,296,159)	(67,906,239)	67,906,239	-
Net revenue ²	10,256,983	25,886,850	17,103,696	10,266,715	6,852,167	47,117,918	-	47,117,918
Depreciation	157,277	240,571	4,006,719	2,891,833	1,061,564	4,563,385	-	4,563,385
Amortization	27,127	48,262	171,284	136,882	31,081	305,944	-	305,944
Operating profit	(135,884)	2,743,270	3,387,639	2,932,980	524,722	5,979,367	-	5,979,367

¹ Includes other amounts not included in specific operating segments.

² Segment net revenue includes intersegment revenues.

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(B) Regional information

The regional segment information provided to the Management Committee for the reportable segments as of and for the three months ended March 31, 2016 and 2015, is as follows:

(1) For the three months ended March 31, 2016

<i>(In millions of Korean won)</i>	Korea	America	Europe	Asia and Africa	China	Intercompany elimination within the Group	Consolidated
Net segment revenue	5,257,790	15,973,612	9,744,135	10,602,171	8,204,544	-	49,782,252
Non-current assets ¹	63,166,180	7,041,671	734,836	7,906,038	12,682,538	(590,885)	90,940,378

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

(2) For the three months ended March 31, 2015

<i>(In millions of Korean won)</i>	Korea	America	Europe	Asia and Africa	China	Intercompany elimination within the Group	Consolidated
Net segment revenue	5,216,771	14,977,300	9,121,983	10,653,399	7,148,465	-	47,117,918
Non-current assets ¹	64,022,499	7,858,237	789,846	6,093,134	10,374,193	(356,969)	88,780,940

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 its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

26. Related Party Transactions

(A) Sale and purchase transactions

Sale and purchase transactions with related parties for the three months ended March 31, 2016 and 2015, are as follows:

<i>(In millions of Korean won)</i>		Name of Company ¹	2016			
			Sales	Disposal of fixed assets	Purchases	Purchase of fixed assets
Associates and Joint ventures		Samsung SDS	\ 14,786	\ -	\ 356,607	\ 32,752
		Samsung Electro-Mechanics	11,219	-	681,842	-
		Others	63,112	-	1,248,984	61,923
		Total (Associates and Joint ventures)	\ 89,117	\ -	\ 2,287,433	\ 94,675
Other related parties		Samsung C&T ²	\ 7,377	\ 74	\ 52,252	\ 436,355
		Samsung SDI	24,900	-	305,885	1,073
		Others	25,245	-	311,040	125,815
		Total (Other related parties)	\ 57,522	\ 74	\ 669,177	\ 563,243

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

² During the year ended December 31, 2015, Cheil Industries Inc. merged with Samsung C&T and changed its name to Samsung C&T.

<i>(In millions of Korean won)</i>		Name of Company ¹	2015			
			Sales	Disposal of fixed assets	Purchases	Purchase of fixed assets
Associates and Joint ventures		Samsung SDS	\ 8,435	\ -	\ 400,191	\ 47,032
		Samsung Electro-Mechanics	2,659	-	622,525	-
		Others	65,481	3,524	1,409,754	87,481
		Total (Associates and Joint ventures)	\ 76,575	\ 3,524	\ 2,432,470	\ 134,513
Other related parties		Samsung C&T ²	\ 1,437	\ -	\ 6,436	\ 112,551
		Samsung SDI	11,642	-	399,155	2,232
		Others	27,741	-	270,828	85,220
		Total (Other related parties)	\ 40,820	\ -	\ 676,419	\ 200,003

¹ Transactions with separate entities that are related parties of the Group

² During the year ended December 31, 2015, Cheil Industries Inc. merged with Samsung C&T and changed its name to Samsung C&T.

Samsung Electronics Co., Ltd. and its 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 March 31, 2016 and December 31, 2015, are as follows:

<i>(In millions of Korean won)</i>	Name of Company ¹	March 31, 2016	
		Receivables	Payables
Associates and Joint ventures	Samsung SDS	\ 2,918	\ 266,482
	Samsung Electro-Mechanics	1,161	250,134
	Others	84,278	1,412,373
	Total (Associates and Joint ventures)	\ 88,357	\ 1,928,989
Other related parties	Samsung C&T ²	\ 209,433	\ 691,292
	Samsung SDI	89,916	76,023
	Others	12,889	140,504
	Total (Other related parties)	\ 312,238	\ 907,819

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

² During the year ended December 31, 2015, Cheil Industries Inc. merged with Samsung C&T and changed its name to Samsung C&T.

<i>(In millions of Korean won)</i>	Name of Company ¹	December 31, 2015	
		Receivables	Payables
Associates and Joint ventures	Samsung SDS	\ 3,578	\ 311,648
	Samsung Electro-Mechanics	608	216,869
	Others	66,033	1,722,515
	Total (Associates and Joint ventures)	\ 70,219	\ 2,251,032
Other related parties	Samsung C&T ²	\ 208,576	\ 1,430,098
	Samsung SDI	90,221	106,507
	Others	19,456	161,048
	Total (Other related parties)	\ 318,253	\ 1,697,653

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

² During the year ended December 31, 2015, Cheil Industries Inc. merged with Samsung C&T and changed its name to Samsung C&T.

(C) During the three months ended March 31, 2016, the Group invested \ 4,848 million in associates and joint ventures. During the three months ended March 31, 2015 the Group invested \ 66,700 million in associates and joint ventures.

(D) 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 three months ended March 31, 2016 and 2015 consists of:

<i>(In millions of Korean won)</i>	2016	2015
Salaries and other short-term employee benefits	\ 2,458	\ 2,361
Termination benefits	160	140
Other long-term benefits	2,079	2,079

Samsung Electronics Co., Ltd. and its Subsidiaries

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

27. Non-current Assets Held-for-Sale (Assets of disposal group)

(A) Summary

- Sale of Samsung Fine Chemicals

During the year ended December 2015, the Group entered into an agreement with Lotte Chemical to sell all of its shares in Samsung Fine Chemicals. The transaction was completed in February 2016.

(B) Details of assets and liabilities reclassified as held-for-sale, as of March 31, 2016 and December 31, 2015 are as follows:

<i>(In millions of Korean won)</i>	March 31, 2016		December 31, 2015	
Assets held-for-sale				
Investment	₩	-	₩	77,073
Total	₩	-	₩	77,073

(C) Details of cumulative income or expense recognized in other comprehensive income relating to the disposal group classified as held-for-sale as of March 31, 2016 and December 31, 2015 are as follows:

<i>(In millions of Korean won)</i>	March 31, 2016		December 31, 2015	
Gain on valuation of available-for-sale securities	₩	-	₩	23,797
Total	₩	-	₩	23,797

28. Events after the Reporting Period

In April, 2016, the Company retired 2.63 million shares (common stock 2.10 million, preferred stock 0.53 million) which were repurchased at cost of ₩3,124,304 million from January 29, 2016 to April 14, 2016. In addition, on April 28, 2016, the board of directors approved the share buyback and retirement of common and preferred stock, with the estimated total number of shares to be repurchased of 1.62 million (common stock 1.30 million, preferred stock 0.32 million). All repurchased shares will be retired after the buyback is completed. The period of purchase will end on July 28, 2016.