

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO THE 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, 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.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea (“Korean IFRS”) 1110, *Consolidated Financial Statements*. The Company, as the controlling company, consolidates its 169 subsidiaries, including Samsung Display and Samsung Electronics America (Note 1.2). The Group also applies the equity method of accounting to its 38 affiliates, including Samsung Electro-Mechanics.

1.2 Consolidated Subsidiaries

(A) The consolidated subsidiaries as at December 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 |
| | Samsung Electronics Logitech | General logistics agency | 100.0 |
| | Samsung Medison | Medical equipment | 68.5 |
| | Samsung Venture Capital Union #20 | Technology business, Venture capital investments | 99.0 |
| Domestic | 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 Venture Capital Union #32 | Technology business, Venture capital investments | 99.0 |
| | Samsung Venture Capital Union #33 | Technology business, Venture capital investments | 99.0 |
| | Mirero System | Quality control system of semiconductor | 74.7 |
| | S-Printing Solution | Business of printing solutions | 100.0 |

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| 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 |
| | 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 |
| | 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 |
| America | 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 |
| | Simpres | 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 | 61.4 |
| | Stellus Technologies | Manufacture and sale of server semiconductor storage system | 100.0 |
| | Samsung Oak Holdings (SHI) | Holding company | 100.0 |
| | AdGear Technologies | Digital advertising platforms | 100.0 |
| | Joyent | Cloud Services | 100.0 |
| | Samsung Next | Holding Company | 100.0 |
| | Samsung Next Fund | Technology business, Venture capital investments | 100.0 |
| | Dacor Holdings | Holding Company | 100.0 |
| | Dacor | Manufacture and sale of Home appliances | 100.0 |
| | Dacor Canada | Sale of Home appliances | 100.0 |
| | EverythingDacor.com | Sale of Home appliances | 100.0 |
| | Distinctive Appliances of California | Sale of Home appliances | 100.0 |
| | Viv Labs | Research of AI technology | 100.0 |
| | NewNet Communication Technologies Canada | RCS (Rich Communication Service) | 100.0 |

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| Area | Subsidiaries | Industry | Percentage of ownership ¹ |
|------------|---|--|--------------------------------------|
| | 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 |
| | 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 (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 |
| Europe/CIS | 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 |
| | 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 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 |
| | Joyent(UK) | Cloud services | 100.0 |

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| Area | Subsidiaries | Industry | Percentage of ownership ¹ |
|---|--|---|--------------------------------------|
| 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 Maghreb Arab (SEMAG) | Sale of electronic devices | 100.0 |
| | Samsung Electronics South Africa Production (SSAP) | Manufacture of TV/monitors | 100.0 |
| | Asia (Except China) | Samsung Japan (SJC) | Sale of electronic devices |
| 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 of electronic devices | 100.0 |
| Samsung Electronics (M) (SEMA) | | Manufacture of home appliances | 100.0 |
| Samsung Vina Electronics (SAVINA) | | 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 and sale 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 and sale of electronic devices | 100.0 |
| Laos Samsung Electronics Sole(LSE) | Marketing | 100.0 | |

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| Area | Subsidiaries | Industry | Percentage of ownership ¹ |
|-------|---|--|--------------------------------------|
| | 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 |
| China | 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 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 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 (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 |
| | SEMES (Xian) | Semiconductor equipment | 100.0 |
| | Samsung Semiconductor Xian (SSCX) | Sale of semiconductor/LCD | 100.0 |

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

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

(1) 2016

| <i>(In millions of Korean won)</i> | 2016 | | | |
|---|---------------|--------------------|--------------|------------------------------|
| | Assets | Liabilities | Sales | Net Income (Loss) |
| Samsung Display (SDC) | ₩ 43,305,405 | ₩ 8,361,256 | ₩ 24,658,814 | ₩ 1,498,628 |
| Samsung Electronics America (SEA) | 21,810,492 | 9,496,649 | 34,521,654 | 246,141 |
| Samsung (China) Investment (SCIC) | 13,632,938 | 11,672,755 | 8,792,750 | 298,373 |
| Samsung (China) Semiconductor (SCS) | 9,749,448 | 4,564,793 | 4,152,137 | 1,113,218 |
| Samsung Electronics Vietnam (SEV) | 9,134,023 | 1,258,948 | 19,426,334 | 2,046,280 |
| Samsung Electronics Europe Holding (SEEH) | 8,643,308 | 6,661,092 | - | 350,974 |
| Samsung Semiconductor (SSI) | 7,804,698 | 3,746,687 | 19,911,135 | 30,247 |
| Samsung Electronics Vietnam THAINGUYEN (SEVT) | 7,646,828 | 2,179,023 | 23,563,736 | 2,641,418 |
| Samsung Electronics Huizhou (SEHZ) | 6,174,579 | 1,106,633 | 12,971,475 | 764,426 |
| Shanghai Samsung Semiconductor (SSS) | 5,862,409 | 5,166,385 | 20,983,314 | 181,041 |
| Samsung Asia Private (SAPL) | 5,528,472 | 592,320 | 1,458,176 | 1,056,956 |
| Samsung Electronica da Amazonia (SEDA) | 5,200,799 | 1,510,972 | 6,092,245 | 966,821 |
| Samsung Austin Semiconductor (SAS) | 4,940,748 | 1,293,458 | 3,586,127 | 104,747 |
| Samsung India Electronics (SIEL) | 4,563,407 | 2,256,194 | 8,827,028 | 753,164 |
| Samsung Display Vietnam (SDV) | 3,165,239 | 3,437,791 | 5,230,581 | (98,102) |
| Samsung Electronics Europe Logistics (SELS) | 2,887,230 | 2,779,296 | 13,157,455 | 36,768 |
| Samsung Suzhou LCD (SSL) | 2,499,917 | 1,376,439 | 1,494,787 | 1,091 |
| Thai Samsung Electronics (TSE) | 2,079,865 | 364,518 | 4,069,078 | 198,980 |
| Samsung Electronics Slovakia (SESK) | 2,053,467 | 440,402 | 3,634,166 | 115,387 |
| Samsung Electronics Taiwan (SET) | 1,857,017 | 1,540,478 | 3,533,924 | (36,178) |
| Samsung Electronics HCMC CE Complex (SEHC) | 1,814,566 | 1,572,982 | 2,010,442 | 118,091 |
| Samsung Electronics Hungarian (SEH) | 1,743,979 | 633,975 | 2,441,881 | 89,712 |
| Samsung Electronics GmbH (SEG) | 1,621,827 | 1,618,305 | 6,257,480 | 2,187 |
| Samsung Display Dongguan (SDD) | 1,584,504 | 518,511 | 5,187,954 | 199,922 |
| Samsung Electronics (UK) (SEUK) | 1,526,879 | 1,103,579 | 4,731,464 | 107,243 |

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(2) 2015

| <i>(In millions of Korean won)</i> | 2015 | | | |
|--|---------------|--------------------|--------------|------------------------------|
| | Assets | Liabilities | Sales | Net Income (Loss) |
| Samsung Display (SDC) | ₩ 39,225,460 | ₩ 6,586,259 | ₩ 26,397,111 | ₩ 1,673,165 |
| Samsung Electronics America (SEA) | 14,875,687 | 7,562,099 | 35,766,374 | 268,083 |
| Samsung (China) Investment (SCIC) | 12,748,395 | 11,040,055 | 11,461,304 | (77,629) |
| Samsung (China) Semiconductor (SCS) | 9,742,388 | 5,537,446 | 2,610,462 | 171,644 |
| Samsung Semiconductor (SSI) | 8,288,391 | 4,379,980 | 21,724,671 | (32,056) |
| Samsung Electronics Vietnam (SEV) | 7,829,507 | 1,155,075 | 18,431,838 | 1,948,071 |
| Samsung Electronics Europe Holding (SEEH) | 6,989,207 | 5,223,523 | - | (31,925) |
| Samsung Electronics Vietnam THAINGUYEN (SEVT) | 6,571,798 | 3,940,926 | 19,379,347 | 1,592,920 |
| Samsung Electronics Huizhou (SEHZ) | 6,192,974 | 1,738,095 | 17,949,623 | 722,700 |
| Samsung Austin Semiconductor (SAS) | 6,179,289 | 2,746,852 | 3,045,453 | 94,698 |
| Samsung Asia Private (SAPL) | 4,227,798 | 504,256 | 1,392,926 | 957,734 |
| Shanghai Samsung Semiconductor (SSS) | 3,792,437 | 3,207,942 | 14,372,358 | 141,232 |
| Samsung India Electronics (SIEL) | 3,723,127 | 2,204,333 | 8,008,884 | 326,462 |
| Samsung Electronica da Amazonia (SEDA) | 3,114,334 | 1,021,869 | 5,634,385 | 322,939 |
| Samsung Suzhou LCD (SSL) | 2,784,122 | 1,634,304 | 1,024,881 | 76,099 |
| Tianjin Samsung Telecom Technology (TSTC) | 2,075,123 | 778,133 | 6,963,943 | 146,972 |
| Samsung Electronics Europe Logistics (SELS) | 1,894,614 | 1,793,917 | 12,943,676 | (7,745) |
| Thai Samsung Electronics (TSE) | 1,889,410 | 416,382 | 3,949,756 | 179,527 |
| Samsung Electronics Slovakia (SESK) | 1,888,341 | 373,886 | 3,480,848 | 107,968 |
| Samsung Electronics GmbH (SEG) | 1,820,922 | 1,762,978 | 6,047,305 | (1,630) |
| Samsung Display Dongguan (SDD) | 1,276,263 | 384,963 | 4,649,277 | 130,635 |
| Samsung Electronics Benelux (SEBN) | 1,264,497 | 291,332 | 2,148,502 | 42,790 |
| Samsung Electronics Hungarian (SEH) | 1,254,673 | 231,785 | 3,029,047 | 97,474 |
| Samsung Electronics Taiwan (SET) | 1,253,480 | 918,482 | 4,258,650 | 44,025 |
| Samsung Electronics (UK) (SEUK) | 1,133,512 | 745,126 | 4,656,990 | 106,413 |

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(C) Changes in scope of consolidation

(1) Subsidiaries newly included in the consolidation for the year ended December 31, 2016:

| Area | Subsidiary | Description |
|--|--------------------------------------|-----------------------|
| Domestic | Samsung Venture Capital Union #32 | Incorporation |
| | Samsung Venture Capital Union #33 | Incorporation |
| | Mirero System | Acquisition of shares |
| | S-Printing Solution | Spin-off |
| America | Samsung Oak Holdings (SHI) | Incorporation |
| | AdGear Technologies | Acquisition of shares |
| | Joyent | Acquisition of shares |
| | Joyent Canada | Acquisition of shares |
| | Samsung Next | Incorporation |
| | Samsung Next Fund | Incorporation |
| | Dacor Holdings | Acquisition of shares |
| | Dacor | Acquisition of shares |
| | Dacor Canada | Acquisition of shares |
| | EverythingDacor.com | Acquisition of shares |
| | Distinctive Appliances of California | Acquisition of shares |
| | Viv Labs | Acquisition of shares |
| NewNet Communication Technologies Canada | Acquisition of shares | |
| Europe/CIS | Joyent (UK) | Acquisition of shares |
| Asia (Except China) | Laos Samsung Electronics Sole (LSE) | Incorporation |
| China | Samsung Semiconductor Xian (SSCX) | Incorporation |

(2) Subsidiaries excluded from the consolidation for the year ended December 31, 2016:

| Area | Subsidiary | Description |
|------------------------|---|---------------------|
| Domestic | Samsung Venture Capital Union #14 | Liquidation |
| America | Grandis | Liquidation |
| | Joyent Canada | Liquidation |
| Europe/CIS | Samsung Russia Service Centre (SRSC) | Merger ¹ |
| | SonoAce Deutschland (SDG) | Liquidation |
| | Samsung Electronics Kazakhstan (SEK) | Merger ⁴ |
| Asia (Except China) | Samsung Telecommunications Malaysia (STM) | Liquidation |
| | Future Technology & Service | Liquidation |
| China | Samsung R&D Institute China-Xian (SRC-Xian) | Merger ² |
| | Samsung Electronics Shanghai Telecommunication (SSTC) | Merger ³ |

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

² Samsung (China) Semiconductor (SCS), a subsidiary of the Group, merged with Samsung R&D Institute China-Xian (SRC-Xian) in July, 2016.

³ Samsung (China) Investment (SCIC), a subsidiary of the Group, merged with Samsung Electronics Shanghai Telecommunication (SSTC) in September, 2016.

⁴ Samsung Electronics Central Eurasia (SECE), a subsidiary of the Group, merged with Samsung Electronics Kazakhstan (SEK) in December, 2016.

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2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Presentation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with Korean IFRS. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group presented have been prepared in accordance with Korean IFRS. International Financial Reporting Standards ("IFRS") have been adopted by the Korean Accounting Standards Board as Korean IFRS based on standards and interpretations published by the International Accounting Standards Board.

Korean IFRS permits the use of critical accounting estimates in the preparation of the financial statements and requires management judgments in applying accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

2.2 Changes in Accounting Policy and Disclosures

(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

Korean IFRS 1001 Presentation of Financial Statements clarifies that materiality applies to the exclusion or inclusion or aggregation of the disclosures in the notes. The standard also clarifies that the share of OCI arising from equity-accounting should be presented in total for items which will and will not be reclassified to profit or loss. Additional amendments are made in relation to the particular ordering of the footnote disclosures. The adoption of this standard did not have a material impact on the financial statements.

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

The Group expects that new standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2016, and not early adopted, would not have a material impact on its consolidated financial statements.

Amendment to Korean IFRS 1007, Statement of Cash Flows

Amendments to *Korean IFRS 1007 Statement of Cash flows* requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group will apply this amendment for annual reporting periods beginning on or after January 1, 2017. The Group is in the process of determining the impact of adopting the new Standard.

Korean IFRS 1109, Financial Instruments

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace *Korean IFRS 1039 Financial Instruments: Recognition and Measurement*. The Group will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, the entity is not required to restate prior periods in relation to classification, measurement and impairment of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 Financial Instruments requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

An effective implementation of *Korea IFRS 1109* requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and system stabilization. The impact on the Group's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

The Group has performed a preliminary assessment of the financial impacts of the implementation of *Korean IFRS 1109* to the 2016 financial statements based on current situation and available information as at December 31, 2016. The expected impact of application of the standard on the Group's financial statements are set out below. The Group will conduct further analysis of detailed financial impacts based on additional information in the future, and the result of the preliminary assessment may change depending on additional information available to the Group.

(a) Classification and Measurement of Financial Assets

When implementing *Korean IFRS 1109*, the classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other

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comprehensive income reserve and at fair value through profit or loss. For hybrid (combined) instruments, if the Group is unable to measure an embedded derivative separately from its host contract, financial assets with embedded derivatives are classified in their entirety.

| Business model for the contractual cash flows characteristics | Solely represent payments of principal and interest | All other |
|---|--|--|
| Hold the financial asset for the collection of the contractual cash flows | Measured at amortized cost ¹ | Recognized at fair value through profit or loss ² |
| Hold the financial asset for the collection of the contractual cash flows and trading | Recognized at fair value through other comprehensive income reserve ¹ | |
| Hold for trading | Recognized at fair value through profit or loss | |

¹ A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

² A designation at fair value through other comprehensive income is allowed only if the financial instrument is the equity investment that are not held for trading (irrevocable).

With the implementation of *Korean IFRS 1109*, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied under *Korean IFRS 1039*. Accordingly, the financial assets at fair value through profit or loss may increase by implementing *Korean IFRS 1109* and may result in an increased fluctuation in profit or loss.

As at December 31, 2016, the Group recognizes loan and trade receivables amounting to ₩112,219,719 million, financial assets available-for-sales amounting to ₩10,442,736 million.

According to *Korean IFRS 1109*, debt investments are measured at amortized cost if: a) the objective of the business model is to hold the financial assets for the collection of the contractual cash flows, and b) the contractual terms of cash flows solely represent payments of principal and interest. As at December 31, 2016, the Group recognized loan and trade receivables amounting to ₩112,219,719 million held at amortized costs.

According to the result of preliminary impact assessment, when applying *Korean IFRS 1109* to the financial assets as at December 31, 2016, under the terms and conditions of the contracts, most financial assets consist of cash flows solely representing payments of principal and interest on a due date. Where the Group holds the financial assets for the collection of the contractual cash flows, the financial assets are classified as accounts subsequently measured at amortized cost. In conclusion, it is expected that the financial impact on the financial statements will be immaterial.

Korean IFRS 1109 measures debt investments at fair value through other comprehensive income of which terms of cash flows solely represent payments of the principal and interest on a due date, where the purpose of holding debt investment is to collect contractual cash flows and trade. As at December 31, 2016, the Group has debt investments classified as available-for-sale financial assets amounting to ₩3,743,173 million.

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According to the result of preliminary impact assessment, when applying *Korean IFRS 1109* to the debt investments classified as available-for-sale as at December 31, 2016, most of the investments will be classified as financial instruments measured at fair value through other comprehensive income.

According to *Korean IFRS 1109*, equity investments not being held for trading may be given an irrevocable election to be classified as financial instruments measured at fair value through other comprehensive income at initial recognition and the cumulative gain or loss previously recognized in other comprehensive income is not subsequently recycled from equity to profit or loss as a reclassification adjustment. As at December 31, 2016, the Group's equity investments classified as available-for-sale financial assets amount to ₩6,699,563 million and the cumulative unrealized profit or loss on available-for-sale equity investments amounting to ₩631,601 million was recycled from equity to profit or loss as a reclassification adjustment for the 2016 fiscal year.

As a result of the preliminary impact assessment, the Group will designate long-term investment equity investments, which account for most of the available-for-sale equity instruments, as financial instruments measured at fair value through other comprehensive income. Therefore, the financial impact to the financial statements is expected to be immaterial. As at December 31, 2016, the remaining cumulative profit or loss which is comprehensive income not subject to be subsequently recycled from equity to profit or loss is ₩1,390,624 million.

According to *Korean IFRS 1109*, debt investments of which the contractual term of cash flows are not solely representing payments of principal and interest or which are held for trading are classified as at fair value through profit or loss. Also equity investments not designated at fair value through comprehensive income are measured at fair value through profit or loss. As at December 31, 2016, the Group has no debt or equity investments classified as financial instruments at fair value through profit or loss.

According to the results of the preliminary impact assessment, as most of the financial assets held as at December 31, 2016 are recorded at fair value through the profit and loss for the current term, the financial impact of adopting *Korean IFRS 1109* is expected to be immaterial.

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under *Korean IFRS 1039*, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under *Korean IFRS 1109*, certain fair value movements will be recognized in other comprehensive income thus profit or loss from fair value movements may decrease.

As at December 31, 2016, total financial liabilities account for ₩46,944,824 million of which ₩417,399 million are designated to be measure at fair value through profit or loss, and for the 2016 fiscal year the Group recognized loss of 61,221 million in relation to financial liabilities measured at fair value through profit or loss.

According to the result of the preliminary impact assessment, financial liabilities measured at fair value through profit and loss for the current terms as at December 31, 2016 have mostly short maturities and the credit risk fluctuation of financial liabilities is insignificant. Therefore, it is expected that the impact of adopting *Korean IFRS 1109* will not be significant.

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(c) Impairment: Financial Assets and Contract Assets

Korean IFRS 1109 sets out a new forward looking ‘expected loss impairment model’ which replaces the incurred loss model in *Korean IFRS 1039* if there is objective evidence and applies to:

- Financial assets measured at amortized cost
- Debt investments measured at fair value through other comprehensive income, and
- Certain loan commitments and financial guaranteed contracts.

Under *Korean IFRS 1109*, a credit event (or impairment ‘trigger’) no longer has to occur before credit losses are recognized. The Group will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

| Stage ¹ | Loss allowance |
|---|---|
| 1 No significant increase in credit risk after initial recognition ² | 12-month expected credit losses (expected credit losses that result from those default events on the financial instruments that are possible within 12 months after the reporting date) |
| 2 Significant increase in credit risk after initial recognition | Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instruments) |
| 3 Objective evidence of credit-impaired | |

¹ The Group shall measure the loss allowance at an amount equal to Lifetime expected credit losses for contract assets or trade receivables under the standard, *Korean IFRS 1115 Revenue from Contracts with Customers*, which do not contain a significant financing component. However, the Group elects to measure the loss allowance at an amount equal to Lifetime expected credit losses for all contract assets or all trade receivables which contain a significant financing component in accordance with *Korean IFRS 1115*. The Group also elects to measure the loss allowance at an amount equal to Lifetime expected credit losses for lease receivables.

² If the financial instrument has low credit risk at the reporting date, the Group may assume that the credit risk has not increased significantly since initial recognition.

Under *Korean IFRS 1109*, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

Korean IFRS 1115, Revenue from Contracts with Customers

The Group will apply *Korean IFRS 1115 Revenue from Contracts with Customers* issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018. This standard replaces *Korean IFRS 1018 Revenue*, *Korean IFRS 1011 Construction Contracts*, *Interpretation 2031 Revenue-Barter Transactions Involving Advertising Services*, *Interpretation 2113 Customer Loyalty Programs*, *Interpretation 2115 Agreements for the Construction of Real Estate* and *Interpretation 2118 Transfers of assets from customers*.

The Group will apply the standard retrospectively to prior reporting periods presented in accordance with *Korean IFRS 1008 Accounting Policies, Changes in Accounting Estimates and Errors* and apply the simplified transition method with no restatement for completed contracts as at January 1, 2017.

The new standard is based on the principle that revenue is recognized when control of goods or services transfers

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to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

Based on the information available at the end of the reporting period, the Group is in the process of preliminary assessment of the potential impact on the financial statements for the year 2016 when applying *Korean IFRS 1115*, and the interim results are set out below. The Group will analyze more specific financial impacts based on additional information in the future.

(a) Identification of performance obligations

The Group's IM (information technology & mobile communications) business consists of mobile phone, communication systems and computers. The Group manufactures and installs network communication systems, and provides them to customers. In 2016, the related revenue from such activities did not account for a large portion of total revenue. When applying *Korean IFRS 1115*, performance obligation, such as network system production with customers, distinguished as technical support in the integrated contract such as (1) product sales, (2) installation service, and (3) maintenance, were identified. The timing of revenue recognition may change depending on whether each performance obligation is fulfilled at one time or over a period of time.

(b) Variable payment

As the Group allows returns when selling products and merchandise, variability in payment may occur. When apply *Korean IFRS 1115*, the Group estimates the variable payment using an expectation-value method that is expected to better anticipate the payments to which the company is entitled, and recognizes revenue by including variable payment in the transaction price only to the amount that it is highly unlikely to reverse a significant portion of the cumulative revenue amount that has already been recognized, at the end of the return period. Amounts not expected to be consideration received or receivable are recognized as a refund liability.

(c) Distribution of transaction price

When applying *Korean IFRS 1115*, the Group allocates transaction prices based on the relative individual selling prices to the various performance obligations identified in a single contract. The Group will use the 'Market Valuation Adjustment Approach' to estimate the individual selling prices of each performance obligation and will use the 'Estimated Cost Plus Margin Approach', which predicts the expected costs and adds the appropriate profits to the transactions.

2.3 Consolidation

The Group prepares the consolidated financial statements in accordance with *Korean IFRS 1110, Consolidated Financial Statements*.

(A) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins from the date the Group obtains control of a subsidiary and ceases when the Group loses control of the subsidiary.

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The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of (1) the aggregate of i) the consideration transferred, ii) the amount of any non-controlling interest in the acquiree and iii) the acquisition-date fair value of the Group's previously held equity interest in the acquiree over (2) the net identifiable assets acquired. If this consideration (1) is lower than the fair value of the acquiree's net assets in (2), the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group subsidiaries are eliminated. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

(B) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of non-controlling interests are also recorded in equity.

(C) Disposal of subsidiaries

If the Group loses control of a subsidiary, any investment continuously retained in the subsidiary is re-measured at its fair value at the date when control is lost and any resulting differences are recognized in profit or loss. Such fair value becomes the initial carrying amount for the subsequent measurement of the retained interest accounted for as an associate, joint venture, or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of such entity are accounted for as if the Group had directly disposed of the related assets or liabilities. As a result, the previously recognized other comprehensive income are reclassified into profit or loss.

(D) Non-controlling interests

Each component of profit or loss and other comprehensive income is attributed to owners of the parent and to non-controlling interests. Total comprehensive income is attributed to owners of the parent and to non-controlling interests even if this results in a negative balance of non-controlling interests.

(E) Associates

Associates are all entities over which the Group has significant influence but does not have control, generally investees of which from 20% to 50% of voting stock is owned by the Group. Investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

(F) Joint arrangements

A joint arrangement of which two or more parties have joint control is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and

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recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

2.4 Foreign Currency Translation

(A) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the parent company's functional and presentation currency.

(B) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and other comprehensive income, respectively, as part of the fair value gain or loss.

(C) Translation into the presentation currency

The results and financial position of all the foreign entities that have a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting date.
- Income and expenses for each statement of income are translated at average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.
- All resulting exchange differences are recognized in other comprehensive income.

2.5 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

2.6 Financial Assets

(A) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, and held-to-maturity financial assets. The classification depends on the terms of the instruments and purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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(1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives not subject to hedge accounting and derivatives separated from financial instruments, such as embedded derivatives, are also categorized as held for trading. Assets in this category are classified as current assets.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

(3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless an investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(B) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date. At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

Interest on available-for-sale financial assets and held-to-maturity financial assets calculated using the effective interest method is recognized in the statement of income as part of financial income. Dividends on available-for-sale financial assets are recognized in the statement of income as part of other non-operating income when the Group's right to receive payments is established.

(C) Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(D) Derecognition of financial assets

If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially all of the risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the statement of financial position.

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2.7 Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment loss is recognized only if there is objective evidence and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to no longer be recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor, a delinquency in interest or principal payments, or the disappearance of an active market for that financial asset because of financial difficulties. A significant and prolonged decline below its cost in the fair value of an available-for-sale equity instrument is also objective evidence of impairment.

2.8 Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If collection is expected beyond one year, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the average cost method, except for materials in transit. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes costs of idle plant and abnormal waste. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Inventories are reduced for the estimated losses arising from excess, obsolescence, and decline in value. This reduction is determined by estimating market value based on future customer demand. The losses on inventory obsolescence are recorded as a part of cost of sales.

2.10 Disposal Group Held-for-Sale

Non-current assets (or disposal groups) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The assets are measured at the lower of their carrying amount and the fair value less costs to sell.

2.11 Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognized and repairs and maintenance expenses are recognized in profit or loss in the period they are incurred.

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Depreciation on tangible assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives. Land is not depreciated. Costs that are directly attributable to the acquisition, construction or production of a qualifying asset, including capitalized interest costs, form part of the cost of that asset and are amortized over the estimated useful lives.

The Group's policy is that property, plant and equipment should be depreciated over the following estimated useful lives:

| | <u>Estimated useful lives</u> |
|--------------------------|-------------------------------|
| Buildings and structures | 15, 30 years |
| Machinery and equipment | 5 years |
| Other | 5 years |

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within the statement of income as part of other non-operating income and expenses.

2.12 Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associates, joint ventures and businesses at the date of acquisition. Goodwill on acquisitions of subsidiaries and businesses is included in intangible assets and goodwill on acquisition of associates and joint ventures is included in the investments in associates and joint ventures.

Intangible assets, except for goodwill, are initially recognized at their historical cost and carried at cost less accumulated amortization and accumulated impairment losses.

Internally generated development costs are the aggregate costs recognized after meeting the asset recognition criteria, including technical feasibility, and determined to have future economic benefits. Membership rights are regarded as intangible assets with an indefinite useful life and not amortized because there is no foreseeable limit to the period over which the assets are expected to be utilized. Intangible assets with definite useful lives such as trademarks and licenses, are amortized using the straight-line method over their estimated useful lives.

The Group's policy is that intangible assets should be amortized over the following estimated useful lives:

| | <u>Estimated useful lives</u> |
|--|-------------------------------|
| Development costs | 2 years |
| Trademarks, licenses and other intangible assets | 5 - 10 years |

2.13 Impairment of Non-Financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill for which an impairment charge was previously recorded are reviewed for possible reversal of the impairment at each reporting date.

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2.14 Financial Liabilities

(A) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

(B) Derecognition

Financial liabilities are removed from the statement of financial position when they are extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expires or when the terms of an existing financial liability are substantially modified.

2.15 Trade Payables

Trade payables are amounts due to suppliers for merchandise purchased or services received in the ordinary course of business. If payment is expected in one year or less, they are classified as current liabilities. If payment is expected beyond one year, they are presented as non-current liabilities. Non-current trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs, and are subsequently measured at amortized cost. Any difference between cost and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method. If the Group has an indefinite right to defer payment for a period longer than 12 months after the end of the reporting date, such liabilities are recorded as non-current liabilities, otherwise, they are recorded as current liabilities.

2.17 Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

When it is probable that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and the amount is reasonably estimable, a corresponding provision is recognized in the financial statements. However, when such outflow is dependent upon a future event that is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

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2.18 Net Defined Benefit Liabilities

The Group has a variety of retirement pension plans including defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans, the Group pays contributions to annuity plans that are managed either publicly or privately on a mandatory, contractual or voluntary basis. The Group has no further future payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect to defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses resulting from the changes in actuarial assumptions, and the differences between the previous actuarial assumptions and what has actually occurred, are recognized in other comprehensive income in the period in which they were incurred. Past service costs are immediately recognized in profit or loss.

2.19 Financial Guarantee Contract

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. If the amount measured in subsequent periods exceeds the unamortized balance of the amount initially recognized, the excess is classified as other financial liability.

2.20 Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized on the profit for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the tax is also recognized in other comprehensive income or directly in equity, respectively. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

A deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, a deferred tax asset is recognized for deductible temporary differences arising from

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such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Derivative Instruments

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes are recognized in profit or loss in the year in which they are incurred. Certain derivatives that qualify as cash flow hedges and hedges on net investments in foreign operations are recognized under equity.

2.22 Dividend

Dividend distribution to the Group's shareholders is recognized as a liability when the dividends are approved.

2.23 Share Capital

Common shares and preferred shares with no repayment obligations are classified as equity. When the Group purchases its common shares, the acquisition costs, including direct transaction costs, are deducted from equity until the redemption or reissuance as treasury shares. Consideration received on the subsequent sale or issuance of treasury shares is credited to equity.

2.24 Revenue Recognition

Revenue mainly comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, sales incentives and discounts and after eliminating intercompany transactions.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group measures revenue by reliably estimating the contingencies associated with revenue based on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Where multiple-element arrangements exist, the fair values of each element are determined based on the current market price of each of the elements when sold separately. When the fair values of each element are indeterminable, the fair values of deliverables which have already been provided are calculated in such way that the fair values of elements which are yet to be provided are subtracted from total contract value of the arrangement.

(A) Sales of goods

Sales of products and merchandise are recognized upon delivery when the significant risks and rewards of ownership of goods have transferred to the buyer. Revenue is recognized net of discounts and returns, estimated at the time of sale based on past experience.

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(B) Sales of services

Revenues from rendering services are generally recognized using the percentage-of-completion method based on the percentage of costs to date compared to the total estimated costs, contractual milestones or performance.

(C) Interest income

Interest income is recognized using the effective interest method according to the time passed. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

(D) Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(E) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.25 Government Grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attached to it. Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to assets are recognized in liabilities as deferred income government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.26 Earnings per Share

Basic earnings per share is calculated by dividing net profit for the period available to common shareholders by the weighted-average number of common shares outstanding during the year. Diluted earnings per share is calculated using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of common equivalent shares outstanding.

2.27 Operating Segments

Operating segments are disclosed in the manner reported to the chief operating decision-maker. The chief operating decision-maker is responsible for making strategic decisions on resource allocation and performance assessment of the operating segments. The Management Committee, which makes strategic decisions, is regarded as the chief operating decision-maker.

2.28 Convenience Translation into United States Dollar Amounts

The Group 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 U.S. dollars at the rate of ₩1159.83 to US \$1, the average exchange rate for the year ended December 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 US dollars at this or at any other rate.

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2.29 Approval of the Consolidated Financial Statements

These consolidated financial statements were approved by the Board of Directors on January 28, 2016.

3. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously assessed, considering historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(A) Revenue recognition

The Group uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver installation services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed. Revenues and earnings are subject to significant change, effected by early steps in a long-term projects, change in scope of a project, cost, period, and plans of the customers.

(B) Provision for warranty

The Group recognizes provision for warranty on products sold. The Group accrues provision for warranty based on the best estimate of amounts necessary to settle future and existing claims. The amounts are estimated based on past experience.

(C) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using a variety of methods and assumptions that are mainly based on market conditions existing at the end of each reporting period.

(D) Net defined benefit liabilities

The net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the net defined benefit liability. The Group, in consideration of the interest rates of high-quality corporate bonds, determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the net defined benefit liability. The principal actuarial assumptions associated with the net defined benefit liability are based on the current market expectations.

(E) Impairment of goodwill

At the end of each reporting period, the Group tests whether goodwill has become impaired by comparing the carrying amounts of cash-generating units to the recoverable amounts. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, and these calculations are based on estimates.

(F) Income taxes

Income taxes on the Group's taxable income from operating activities are subject to various tax laws and determinations of each tax authority across various countries throughout the world. There is uncertainty in

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determining the eventual tax effects on the taxable income from operating activities. The Group has recognized current tax and deferred tax at the end of the fiscal year based on the best estimation of future taxes payable as a result of operating activities. However, the resulting deferred income tax assets and liabilities may not equal the actual future taxes payable and such difference may impact the current tax and deferred income tax assets and liabilities upon the determination of eventual tax effects.

4. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Cash and cash equivalents as at December 31, 2016 and 2015, consist of the following:

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|------------------------------------|-------------|-------------------|-------------|-------------------|
| Cash on hand | ₩ | 51,770 | ₩ | 40,337 |
| Bank deposits and others | | 32,059,672 | | 22,596,407 |
| Total | ₩ | 32,111,442 | ₩ | 22,636,744 |

5. Financial Assets Subject to Withdrawal Restrictions

Financial instruments subject to withdrawal restrictions as at December 31, 2016 and 2015, consist of the following:

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|------------------------------------|-------------|--------|-------------|--------|
| Short-term financial instruments | ₩ | 21,541 | ₩ | 14,032 |
| Other non-current assets | | 28,828 | | 23,015 |

6. Financial Instruments by Category

(A) Categorizations of financial assets and liabilities as at December 31, 2016 and 2015, are as follows:

(1) As at December 31, 2016

| <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 | ₩ | - | ₩ | 32,111,442 | ₩ | - | ₩ 32,111,442 |
| Short-term financial instruments | | - | | 52,432,411 | | - | 52,432,411 |
| Short-term available-for-sale financial assets | | - | | - | | 3,638,460 | 3,638,460 |
| Trade receivables | | - | | 24,279,211 | | - | 24,279,211 |
| Long-term available-for-sale financial assets | | - | | - | | 6,804,276 | 6,804,276 |
| Other | | 63,208 | | 3,396,655 | | - | 3,459,863 |
| Total | ₩ | 63,208 | ₩ | 112,219,719 | ₩ | 10,442,736 | ₩ 122,725,663 |

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| <i>(In millions of Korean won)</i> | Liabilities at fair value through profit or loss | | Financial liabilities measured at amortized cost | | Other financial liabilities | | Total | |
|--|---|---------|---|------------|------------------------------------|------------|--------------|------------|
| Liabilities | | | | | | | | |
| Trade payables | ₩ | - | ₩ | 6,485,039 | ₩ | - | ₩ | 6,485,039 |
| Short-term borrowings | | - | | 1,817,021 | | 10,929,768 | | 12,746,789 |
| Other payables | | - | | 10,225,271 | | - | | 10,225,271 |
| Current portion of long-term liabilities | | - | | 1,232,817 | | - | | 1,232,817 |
| Debentures | | - | | 58,542 | | - | | 58,542 |
| Long-term borrowings | | - | | 1,244,238 | | - | | 1,244,238 |
| Long-term other payables | | 342,702 | | 2,666,957 | | - | | 3,009,659 |
| Other | | 74,697 | | 11,867,772 | | - | | 11,942,469 |
| Total | ₩ | 417,399 | ₩ | 35,597,657 | ₩ | 10,929,768 | ₩ | 46,944,824 |

(2) As at 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 |
| Other | | 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 or 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 |
| Other | | 38,829 | | 7,908,569 | | - | | 7,947,398 |
| Total | ₩ | 351,567 | ₩ | 28,263,801 | ₩ | 8,738,448 | ₩ | 37,353,816 |

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(B) Net gains or net losses on each category of financial instruments for the years ended December 31, 2016 and 2015, are as follows:

(1) For the year ended December 31, 2016

(In millions of Korean won)

| Financial Assets | Assets at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Total |
|--|---|-----------------------|-------------------------------------|-----------|
| Gain on valuation (other comprehensive income) | ₩ - | ₩ - | ₩ 607,762 | ₩ 607,762 |
| Gain(loss) on valuation/disposal (profit or loss) | (24,573) | (5,648) | 953,416 | 923,195 |
| Reclassification from other comprehensive income to profit or loss | - | - | (631,601) | (631,601) |
| Interest income | - | 1,475,357 | 28,961 | 1,504,318 |
| Foreign exchange differences (profit or loss) | - | 772,552 | - | 772,552 |
| Foreign exchange differences (other comprehensive income) | - | - | (156,050) | (156,050) |
| Dividend income | - | - | 239,899 | 239,899 |
| Impairment/reversal (profit or loss) | - | (135,046) | (341,790) | (476,836) |

(In millions of Korean won)

| Financial Liabilities | Liabilities at fair value through profit or loss | Financial liabilities measured at amortized cost | Other financial liabilities | Total |
|---|--|--|-----------------------------|------------|
| Gain(loss) on valuation/disposal (profit or loss) | ₩ (61,221) | ₩ - | ₩ - | ₩ (61,221) |
| Interest expense | - | 351,009 | 236,822 | 587,831 |
| Foreign exchange differences (profit or loss) | - | (623,777) | (212,788) | (836,565) |

(2) For the year ended December 31, 2015

(In millions of Korean won)

| Financial Assets | Assets at fair value through profit or loss | Loans and receivables | Available-for-sale financial assets | Total |
|--|---|-----------------------|-------------------------------------|-------------|
| Loss on valuation (other comprehensive income) | ₩ - | ₩ - | ₩ (906,547) | ₩ (906,547) |
| Gain/(loss) on valuation/disposal (profit or loss) | 4,168 | (14,980) | 132,223 | 121,411 |
| Reclassification from other comprehensive income to profit or loss | - | - | 491,586 | 491,586 |
| Interest income | - | 1,665,521 | 95,636 | 1,761,157 |
| Foreign exchange differences (profit or loss) | - | 147,455 | - | 147,455 |
| Foreign exchange differences (other comprehensive income) | - | - | (161,511) | (161,511) |
| Dividend income | - | - | 183,730 | 183,730 |
| Impairment/reversal (profit or loss) | - | (65,051) | (11,323) | (76,374) |

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(In millions of Korean won)

| Financial Liabilities | Liabilities at fair value through profit or loss | Financial liabilities measured at amortized cost | Other financial liabilities | Total |
|---|---|---|--------------------------------|-----------|
| Gain on valuation/disposal (profit or loss) | ₩ 315,873 | ₩ - | ₩ - | ₩ 315,873 |
| Interest expense | - | 567,181 | 209,330 | 776,511 |
| Foreign exchange differences (profit or loss) | - | (436,676) | 33,695 | (402,981) |

7. Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit ratings as at December 31, 2016 and 2015, as follows:

- Superior ability to repay: Aaa~Aa (Moody's), AAA~AA (S&P, Fitch), A1 (Credit rating agencies in Korea)
- Strong ability to repay: A (Moody's, S&P, Fitch), A2 (Credit rating agencies in Korea)
- Acceptable ability to repay: Baa (Moody's), BBB (S&P, Fitch), A3 (Credit rating agencies in Korea)
- Currently having the ability to repay: Ba or below (Moody's), BB or below (S&P, Fitch), B or below (Credit rating agencies in Korea)
- Group 1: Customers not having experienced capital erosion or default risk
- Group 2: Customers having experienced capital erosion or default risk, where all default risk is relieved as the trade payables are guaranteed by credit insurance or collateral.

(A) Trade receivables

(In millions of Korean won)

| | 2016 | 2015 |
|--|--------------|--------------|
| Counterparties with external credit rating: | | |
| Superior ability to repay | ₩ 2,743,633 | ₩ 3,346,722 |
| Strong ability to repay | 3,170,573 | 3,337,397 |
| Acceptable ability to repay | 3,839,674 | 3,285,587 |
| Currently having the ability to repay | 2,744,783 | 3,576,405 |
| Subtotal | 12,498,663 | 13,546,111 |
| Counterparties without external credit rating: | | |
| Group 1 | 8,465,341 | 9,341,473 |
| Group 2 | 239,626 | 137,973 |
| Subtotal | 8,704,967 | 9,479,446 |
| Total | ₩ 21,203,630 | ₩ 23,025,557 |

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(B) Cash equivalents and short-term financial instruments

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|---------------------------------------|---------------------|---------------------|
| Superior ability to repay | ₩ 9,319,341 | ₩ 6,283,532 |
| Strong ability to repay | 70,916,126 | 57,377,674 |
| Acceptable ability to repay | 4,040,000 | 3,112,954 |
| Currently having the ability to repay | 171,393 | 17,293 |
| Other ¹ | 45,223 | 33,754 |
| Total | ₩ 84,492,083 | ₩ 66,825,207 |

¹ Short-term financial instruments held at financial institutions (such as Credit unions) without an external credit rating.

8. Transfer of Financial Assets

Trade receivables of the Group have been discounted through factoring agreements with banks in 2016 and 2015. Collateral (trade receivables and other) provided in such factoring transactions do not meet the requirements for asset derecognition as risks and rewards are not substantially transferred in the event the debtor defaults. Financial liabilities recognized in relation to these transactions are included as short-term borrowings on the statement of financial position (Note 15).

The following table presents a breakdown of discounted trade receivables as at December 31, 2016 and 2015:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|--|--------------|-------------|
| Carrying amount of the discounted trade receivables ¹ | ₩ 10,929,768 | ₩ 8,738,448 |
| Carrying amount of the related borrowings | 10,929,768 | 8,738,448 |

¹ The discounted trade receivables include intercompany balances.

9. Available-for-Sale Financial Assets

Changes in available-for-sale financial assets for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|--|---------------------|---------------------|
| Balance as at January 1 | ₩ 12,960,010 | ₩ 15,954,307 |
| Acquisitions | 17,804,905 | 8,213,756 |
| Disposals | (18,896,371) | (9,746,482) |
| Valuation of available-for-sale financial assets | 798,698 | (1,218,782) |
| Impairment | (326,672) | (11,323) |
| Foreign exchange differences | (156,050) | (161,511) |
| Other ¹ | (1,741,784) | (69,955) |
| Balance as at December 31 | ₩ 10,442,736 | ₩ 12,960,010 |
| (A) Current portion | 3,638,460 | 4,627,530 |
| (B) Non-current portion | 6,804,276 | 8,332,480 |

¹ Due to increase in shareholding ratio for the year ended December 31, 2016, Samsung SDI and Cheil Worldwide were

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reclassified from available-for-sale financial assets to investments in associates.

Changes in valuation gains (losses) recognized in equity (other comprehensive income) on available-for-sale financial assets for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|---|-------------|-------------|
| Balance as at January 1 | ₩ 2,008,223 | ₩ 2,582,037 |
| Fair value gains | 798,698 | (1,218,782) |
| Net gains transferred from equity | (837,088) | 644,968 |
| Balance as at December 31 | 1,969,833 | 2,008,223 |
| Deferred income tax and non-controlling interests | (579,209) | (506,096) |
| Total | ₩ 1,390,624 | ₩ 1,502,127 |

(A) Short-term available-for-sale financial assets

Details of short-term available-for-sale financial assets as at December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|---------------------------------------|-------------|-------------|
| Beneficiary certificates ¹ | ₩ 3,638,460 | ₩ 1,606,320 |
| Government bonds | - | 271,373 |
| Bank debentures | - | 2,749,837 |
| Total | ₩ 3,638,460 | ₩ 4,627,530 |

¹ Details of beneficiary certificates as at December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|------------------------------------|-------------|-------------|
| Time deposits and others | ₩ 3,638,460 | ₩ 1,606,320 |
| Total | ₩ 3,638,460 | ₩ 1,606,320 |

(B) Long-term available-for-sale financial assets

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

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|------------------------------------|-------------|-------------|
| Equity securities - Listed | ₩ 2,362,235 | ₩ 4,674,753 |
| Equity securities - Non-listed | 4,337,328 | 3,498,655 |
| Debt securities ¹ | 104,713 | 159,072 |
| Total | ₩ 6,804,276 | ₩ 8,332,480 |

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

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(1) Equity securities - Listed

Details of listed equity securities as at December 31, 2016 and 2015, are as follows:

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

| | 2016 | | | 2015 | |
|---|---------------------------|--------------------------------|---------------------|------------------------------|------------------------------|
| | Number of Shares Owned | Percentage of Ownership (%) | Acquisition Cost | Book Value (Market Value) | Book Value (Market Value) |
| Samsung SDI ¹ | - | - | ₩ - | ₩ - | ₩ 1,534,745 |
| Samsung Heavy Industries | 65,930,982 | 16.9 | 473,727 | 609,862 | 441,331 |
| Hotel Shilla | 2,004,717 | 5.1 | 13,957 | 96,527 | 154,965 |
| Cheil Worldwide ¹ | - | - | - | - | 300,124 |
| iMarket Korea | 647,320 | 1.8 | 324 | 6,732 | 16,377 |
| SFA | 1,822,000 | 10.2 | 38,262 | 117,519 | 90,098 |
| Wonik Holdings (formerly Wonik IPS) ² | 3,518,342 | 4.6 | 30,821 | 23,714 | 81,949 |
| Wonik IPS ² | 3,701,872 | 9.0 | 32,428 | 96,989 | |
| ASML ³ | 6,297,787 | 1.5 | 363,012 | 851,395 | 1,331,450 |
| Rambus ³ | - | - | - | - | 65,039 |
| Seagate Technology ³ | - | - | - | - | 538,766 |
| Sharp ³ | - | - | - | - | 43,502 |
| Wacom | 8,398,400 | 5.2 | 62,013 | 26,647 | 39,330 |
| BYD ⁴ | 52,264,808 | 1.9 | 528,665 | 449,872 | - |
| Other | | | 79,259 | 82,978 | 37,077 |
| Total | | | ₩ 1,622,468 | ₩ 2,362,235 | ₩ 4,674,753 |

¹ Due to increase in shareholding ratio for the year ended December 31, 2016, Samsung SDI and Cheil Worldwide were reclassified from available-for-sale financial assets to investments in associates.

² For the year ended December 31, 2016, Wonik IPS split off from Wonik Holdings (formerly Wonik IPS).

³ For the same period above, the Group disposed all of its Rambus, Seagate Technology and Sharp shares and a portion of its ASML shares.

⁴ For the same period above, the Group acquired 52,264,808 shares of BYD.

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).

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(2) Equity securities - Non-listed

Details of non-listed equity securities as at December 31, 2016 and 2015, are as follows:

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

| | 2016 | | | 2015 | |
|--|---------------------------|--------------------------------|---------------------|-------------------------|-------------|
| | Number of Shares Owned | Percentage of Ownership (%) | Acquisition Cost | Book Value ² | Book Value |
| Kihyup Technology | 1,000,000 | 17.2 | ₩ 5,000 | ₩ 5,000 | ₩ 5,000 |
| Pusan Newport ¹ | - | - | - | - | 5,677 |
| Samsung Venture Investment Maltani (formerly Taewon Lightning) | 980,000 | 16.3 | 4,900 | 7,515 | 7,207 |
| Corning Inc. | 45,000 | 15.0 | 16,544 | 16,270 | 15,860 |
| CSOT ¹ | 2,300 | 7.4 | 2,434,320 | 3,440,487 | 2,745,574 |
| CSOSDT | - | - | - | - | 278,557 |
| Nanosys | - | 9.8 | 357,315 | 357,315 | - |
| Other | 15,950,462 | 12.8 | 27,323 | 28,985 | 28,985 |
| | | | 542,205 | 481,756 | 411,795 |
| Total | | | ₩ 3,387,607 | ₩ 4,337,328 | ₩ 3,498,655 |

¹ For the same period above, the Group disposed all of its Pusan Newport and CSOT shares.

² Nonmarketable shares are measured at cost as the variability of estimated cash flow is significant and the probability of various estimates, including discount rate, cannot be reasonably assessed.

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).

(3) Debt securities

Details of debt securities as at December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|------------------------------------|------|---------|------|---------|
| Corporate bonds | ₩ | 104,713 | ₩ | 159,072 |
| Total | ₩ | 104,713 | ₩ | 159,072 |

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Trade and Other Receivables

(A) Trade and other receivables as at December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|------------------------------------|--------------|------------------|--------------|------------------|
| | Trade | Non-Trade | Trade | Non-Trade |
| Receivables | ₩ 24,704,524 | ₩ 3,582,229 | ₩ 25,520,385 | ₩ 3,585,895 |
| Less: Provisions for impairment | (420,889) | (25,503) | (326,861) | (49,291) |
| Receivables, net | 24,283,635 | 3,556,726 | 25,193,524 | 3,536,604 |
| Less: Non-current portion | (4,424) | (35,529) | (25,498) | (183,941) |
| Current portion | ₩ 24,279,211 | ₩ 3,521,197 | ₩ 25,168,026 | ₩ 3,352,663 |

The Group transferred receivable balances to financial institutions in exchange for cash during the years ended December 31, 2016 and 2015. The outstanding balances of transferred receivables, amounting to ₩10,929,768 million and ₩8,738,448 million, have been accounted for as collateralized borrowings as at December 31, 2016 and 2015, respectively (Note 15).

(B) Movements in the provisions for impairment of receivables for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|---|--------------|------------------|--------------|------------------|
| | Trade | Non-Trade | Trade | Non-Trade |
| Balance as at January 1 | ₩ 326,861 | ₩ 49,291 | ₩ 277,788 | ₩ 9,894 |
| Provisions for impaired receivables / (reversals of unused amounts) | 117,207 | (19,209) | 58,513 | 41,195 |
| Receivables written off during the year as uncollectible | (20,421) | (3,978) | (2,963) | (3,235) |
| Other | (2,758) | (601) | (6,477) | 1,437 |
| Balance as at December 31 | ₩ 420,889 | ₩ 25,503 | ₩ 326,861 | ₩ 49,291 |

(C) The aging analysis of trade and other receivables as at December 31, 2016 and 2015, is as follows:

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|--|-------------|------------|-------------|------------|
| Receivables not past due | ₩ | 24,598,074 | ₩ | 26,052,236 |
| Past due but not impaired ¹ : | | | | |
| Less than 31 days overdue | | 2,281,693 | | 1,986,756 |
| Impaired: | | | | |
| 31 days to 90 days overdue | | 881,736 | | 405,310 |
| Over 90 days overdue | | 525,250 | | 661,978 |
| Total | ₩ | 28,286,753 | ₩ | 29,106,280 |

¹ The Group does not consider receivables that are overdue for less than or equal to 31 days as impaired.

(D) The maximum exposure to current credit risk is equivalent to the carrying amount of receivables as at December 31, 2016. The Group has in place insurance contracts covering the Group's major receivables, and has accrued provisions against receivables in accordance with the overdue payment history for those receivables not covered by insurance contracts.

Samsung Electronics Co., Ltd. and Subsidiaries

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11. Inventories

Inventories as at December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | | | 2015 | | |
|------------------------------------|--------------------|-------------------------------------|--------------------|--------------------|------------------------|--------------------|
| | Gross Amount | Valuation Allowance ¹ | Book Value | Gross Amount | Valuation Allowance | Book Value |
| Finished goods | ₩ 7,982,850 | ₩ (2,077,511) | ₩ 5,905,339 | ₩ 5,956,413 | ₩ (186,953) | ₩ 5,769,460 |
| Work in process | 5,334,607 | (317,223) | 5,017,384 | 6,142,964 | (363,661) | 5,779,303 |
| Raw materials and supplies | 7,526,608 | (1,032,442) | 6,494,166 | 6,082,185 | (222,923) | 5,859,262 |
| Materials in transit | 936,614 | - | 936,614 | 1,403,769 | - | 1,403,769 |
| Total | ₩21,780,679 | ₩ (3,427,176) | ₩18,353,503 | ₩19,585,331 | ₩ (773,537) | ₩18,811,794 |

¹ Inventories for which the Group has suspended sales or production, are evaluated based on net realizable value. In addition, if the net realizable value is less than the book value, then the difference is recorded as a valuation allowance.

The cost of inventories recognized as expense and included in 'cost of sales' for the year ended December 31, 2016, amounts to ₩119,611,006 million (2015: ₩122,679,069 million). The amount includes inventory valuation losses.

12. Investments in Associates and Joint Ventures

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

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|------------------------------------|--------------------|--------------------|
| Balance as at January 1 | ₩ 5,276,348 | ₩ 5,232,461 |
| Acquisition | 84,306 | 137,917 |
| Disposal ¹ | (1,343,936) | (19,323) |
| Share of profit | 19,501 | 1,101,932 |
| Other ² | 1,801,665 | (1,176,639) |
| Balance as at December 31 | ₩ 5,837,884 | ₩ 5,276,348 |

¹ The Group sold its entire stake in Samsung Card for the year ended December 31, 2016.

² Other consists of dividends, impairment and reclassification as assets held-for-sale. Due to increase in shareholding ratio for the year ended December 31, 2016, Samsung SDI and Cheil Worldwide were reclassified from available-for-sale financial assets to investments in associates. For the year ended December 31, 2015, Impairment losses on Samsung Card resulting from the decline in recoverable value below the book value amounted to ₩1,126,958 million.

Samsung Electronics Co., Ltd. and Subsidiaries

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(B) Major investments in associates and joint ventures as at December 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 | 31.5 | Korea |
| Samsung SDI ² | Manufacture and supply electronics including secondary cell batteries | 19.6 | Korea |
| Cheil Worldwide | Advertising agency | 25.2 | Korea |

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

² The Group's ownership of common stock outstanding is 20.3%.

(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.

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

(1) Investments in associates

(In millions of Korean won)

| Investee | 2016 | | | |
|---------------------------|--------------------|---|------------------|--------------------|
| | Acquisition cost | Net asset value of equity shares ¹ | | Book value |
| Samsung Electro-Mechanics | ₩ 359,237 | ₩ | 993,031 | ₩ 997,022 |
| Samsung SDS | 147,963 | | 1,161,197 | 1,185,703 |
| Samsung Biologics | 443,193 | | 1,285,706 | 1,289,351 |
| Samsung SDI | 1,242,605 | | 2,131,718 | 1,232,986 |
| Cheil Worldwide | 506,162 | | 192,594 | 517,885 |
| Other | 642,536 | | 182,279 | 390,438 |
| Total | ₩ 3,341,696 | ₩ | 5,946,525 | ₩ 5,613,385 |

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

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In millions of Korean won)

| Investee | 2015 | | | | |
|---------------------------|------------------|------------------|---|------------------|--------------------|
| | Acquisition cost | | 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 |
| Samsung SDI | | - | | - | - |
| Cheil Worldwide | | - | | - | - |
| Other | | 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 | 2016 | | | | |
|--------------------------------|------------------|----------------|---|----------------|------------------|
| | Acquisition cost | | Net asset value of equity shares ¹ | | Book value |
| Samsung Corning Advanced Glass | ₩ | 215,000 | ₩ | 169,521 | ₩ 169,485 |
| Other | | 259,977 | | 59,342 | 55,014 |
| Total | ₩ | 474,977 | ₩ | 228,863 | ₩ 224,499 |

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 | 2015 | | | | |
|--------------------------------|------------------|----------------|---|----------------|------------------|
| | Acquisition cost | | Net asset value of equity shares ¹ | | Book value |
| Samsung Corning Advanced Glass | ₩ | 215,000 | ₩ | 188,431 | ₩ 188,371 |
| Other | | 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.

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(D) Details of the valuations of investments in associates and joint ventures under the equity method for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

| Investee | 2016 | | | | |
|--------------------------------|----------------------------|---------------------------|---------------------------------------|--------------------|------------------------------|
| | Balance as at January 1 | Gain/loss on valuation | Other comprehensive income/loss | Other ¹ | Balance as at December 31 |
| Samsung Card | ₩ 1,338,679 | ₩ - | ₩ - | ₩ (1,338,679) | ₩ - |
| Samsung Electro-Mechanics | 994,489 | 1,738 | 9,641 | (8,846) | 997,022 |
| Samsung SDS | 1,060,396 | 105,424 | 28,620 | (8,737) | 1,185,703 |
| Samsung Biologics | 1,310,202 | (66,212) | (1,189) | 46,550 | 1,289,351 |
| Samsung SDI | - | (8,017) | (1,602) | 1,242,605 | 1,232,986 |
| Cheil Worldwide | - | 4,375 | 7,348 | 506,162 | 517,885 |
| Samsung Corning Advanced Glass | 188,371 | (18,742) | (144) | - | 169,485 |
| Other | 384,211 | 935 | (6,522) | 66,828 | 445,452 |
| Total | ₩ 5,276,348 | ₩ 19,501 | ₩ 36,152 | ₩ 505,883 | ₩ 5,837,884 |

¹ Other consists of acquisitions, disposals, dividends, impairment, reclassification and others

(In millions of Korean won)

| Investee | 2015 | | | | |
|--------------------------------|----------------------------|---------------------------|---------------------------------------|---------------------|------------------------------|
| | Balance as at January 1 | Gain/loss on valuation | Other comprehensive income/loss | Other ¹ | Balance as at December 31 |
| Samsung Card | ₩ 2,354,026 | ₩ 124,999 | ₩ 29,831 | ₩(1,170,177) | ₩ 1,338,679 |
| Samsung Electro-Mechanics | 1,040,404 | (2,877) | (28,954) | (14,084) | 994,489 |
| Samsung SDS | 951,776 | 100,156 | 17,196 | (8,732) | 1,060,396 |
| Samsung Biologics | 293,975 | 886,439 | (3,812) | 133,600 | 1,310,202 |
| Samsung Corning Advanced Glass | 195,930 | (7,785) | 226 | - | 188,371 |
| Other | 396,350 | 1,000 | (1,630) | (11,509) | 384,211 |
| Total | ₩ 5,232,461 | ₩ 1,101,932 | ₩ 12,857 | ₩(1,070,902) | ₩ 5,276,348 |

¹ Other consists of acquisitions, disposals, dividends, impairment, reclassification and others

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(1) A summary of condensed financial information of major associates, details of adjustments from the book value of investments in major associates, and dividends received from major associates as at and for the years ended December 31, 2016 and 2015, is as follows:

| Investee | 2016 | | | | |
|---|---------------------------|-------------|-------------------|-------------|-----------------|
| | Samsung Electro-Mechanics | Samsung SDS | Samsung Biologics | Samsung SDI | Cheil Worldwide |
| 1. Condensed financial information | | | | | |
| Condensed statement of financial position: | | | | | |
| Current assets | ₩2,812,409 | ₩4,548,448 | ₩1,461,425 | ₩3,958,266 | ₩1,794,812 |
| Non-current assets | 4,850,220 | 2,293,556 | 6,071,580 | 10,942,046 | 356,619 |
| Current liabilities | 2,043,155 | 1,347,385 | 2,476,545 | 2,212,796 | 1,244,899 |
| Non-current liabilities | 1,281,889 | 203,495 | 974,089 | 1,723,405 | 130,248 |
| Non-controlling interests | 97,467 | 150,429 | - | 241,980 | 13,277 |
| Condensed statement of comprehensive income: | | | | | |
| Revenue | 6,033,040 | 8,180,187 | 294,622 | 5,200,823 | 3,232,594 |
| Profit from continuing operations ¹ | 14,707 | 463,858 | (176,832) | (878,504) | 88,263 |
| Profit after tax from discontinued operations ¹ | - | - | - | 1,089,615 | - |
| Other comprehensive income(loss) ¹ | 41,212 | 35,664 | 108 | (222,175) | (13,711) |
| Total comprehensive income(loss) ¹ | 55,919 | 499,522 | (176,724) | (11,064) | 74,552 |
| 2. Details of adjustments from the book value of investments in associates | | | | | |
| Net assets (a) | ₩4,240,118 | ₩5,140,695 | ₩4,082,371 | ₩10,722,131 | ₩763,007 |
| Ownership percentage (b) ² | 23.4% | 22.6% | 31.5% | 19.9% | 25.2% |
| Net assets of equity shares (a x b) | 993,031 | 1,161,197 | 1,285,706 | 2,131,718 | 192,594 |
| Goodwill | 7,081 | 26,801 | 3,645 | - | 325,291 |
| Intercompany transactions and others ³ | (3,090) | (2,295) | - | (898,732) | - |
| Book value of associates | 997,022 | 1,185,703 | 1,289,351 | 1,232,986 | 517,885 |
| 3. Dividends from associates | | | | | |
| Dividends | ₩ | 8,847 | ₩ | 8,736 | - |

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

² Ownership percentage includes common and preferred stock.

³ Consists of unrealized gains and losses and other differences.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In millions of Korean won)

2015

| Investee | Samsung Card ¹ | Samsung Electro- Mechanics | Samsung SDS | Samsung Biologics |
|---|---------------------------|----------------------------------|-------------|----------------------|
| 1. Condensed financial information | | | | |
| Condensed statement 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 | | 1,768,254 | 1,389,915 | 1,911,669 |
| Non-current liabilities | 12,382,672 | 1,185,816 | 164,913 | 1,273,991 |
| Non-controlling interests | - | 93,268 | 188,091 | - |
| Condensed statement of comprehensive income: | | | | |
| Revenue | ₩3,302,194 | ₩6,176,258 | ₩7,853,459 | ₩ 91,278 |
| Profit from continuing operations ² | 333,724 | 312,773 | 439,020 | 1,920,179 |
| Profit after tax from discontinued operations ² | - | (301,585) | - | - |
| Other comprehensive loss ² | 79,656 | (138,445) | 70,670 | (8,315) |
| Total comprehensive income ² | 413,380 | (127,257) | 509,690 | 1,911,864 |
| 2. Details of adjustments from the book value of investments in associates | | | | |
| Net assets (a) | ₩6,688,325 | ₩4,222,115 | ₩4,588,760 | ₩2,774,834 |
| Ownership percentage (b) ³ | 37.5% | 23.4% | 22.6% | 46.8% |
| Net assets of equity shares (a x b) | 2,504,778 | 987,695 | 1,036,142 | 1,300,185 |
| Goodwill | 17,181 | 7,081 | 26,801 | 5,531 |
| Intercompany transactions and others ⁴ | (56,322) | (287) | (2,547) | 4,486 |
| Impairment | (1,126,958) | - | - | - |
| Book value of associates | 1,338,679 | 994,489 | 1,060,396 | 1,310,202 |
| 3. 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.

³ Ownership percentage includes common and preferred stock.

⁴ Consists of unrealized gains and losses and other differences.

Samsung Electronics Co., Ltd. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (2) A summary of condensed financial information of major joint ventures, details of adjustments from the book value of investments in major joint ventures, and dividends from major joint ventures as at and for the years ended December 31, 2016 and 2015, is as follows:

(In millions of Korean won)

| Investee | Samsung Corning Advanced Glass | |
|---|-----------------------------------|-----------|
| | 2016 | 2015 |
| 1. Condensed financial information | | |
| Condensed statements of financial position | | |
| Current assets | ₩ 170,614 | ₩ 226,720 |
| - Cash and cash equivalent | 16,021 | 13,383 |
| Non-current assets | 209,881 | 183,313 |
| Current liabilities | 41,076 | 32,158 |
| - Current financial liabilities ¹ | 14,779 | 14,111 |
| Non-current liabilities | 377 | 1,013 |
| Condensed statements of comprehensive income | | |
| Revenue | 257,041 | 264,660 |
| Depreciation and amortization | 2,202 | 2,025 |
| Interest income | 1,433 | 1,182 |
| Income tax expense | (8,841) | (2,100) |
| Loss from continuing operations ² | (37,531) | (15,619) |
| Other comprehensive income (loss) ² | - | 452 |
| Total comprehensive loss ² | (37,531) | (15,167) |

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

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

(In millions of Korean won)

| Investee | Samsung Corning Advanced Glass | |
|---|-----------------------------------|-----------|
| | 2016 | 2015 |
| 2. Details of adjustments from the book value of investments in joint ventures | | |
| Net assets (a) | ₩ 339,042 | ₩ 376,862 |
| Ownership percentage (b) | 50.0% | 50.0% |
| Net assets of equity shares (a x b) | 169,521 | 188,431 |
| Intercompany transactions and others ¹ | (36) | (60) |
| Book value of joint ventures | 169,485 | 188,371 |
| 3. Dividends from joint ventures | | |
| Dividends | ₩ - | ₩ - |

¹ Consists of unrealized gains and losses and other differences.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Profit (loss) amounts attributable to owners of the parent from associates and joint ventures which are not individually material for the years ended December 31, 2016 and 2015, are as follow:

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|--|-------------------|-----------------------|-------------------|-----------------------|
| | Associates | Joint ventures | Associates | Joint ventures |
| Investee | | | | |
| Profit(Loss) from continuing operations ¹ | ₩ 4,993 | ₩ (3,567) | ₩ 173 | ₩ 1,834 |
| Other comprehensive income (loss) ¹ | (2,042) | (4,505) | 620 | (233) |
| Total comprehensive income (loss)¹ | ₩ 2,951 | ₩ (8,072) | ₩ 793 | ₩ 1,601 |

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

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

| <i>(In millions of Korean won and number of shares)</i> | 2016 | | 2015 |
|---|------------------------------|---------------------|---------------------|
| | Number of shares held | Market value | Market value |
| Samsung Electro-Mechanics | 17,693,084 | 898,809 | 1,112,895 |
| Samsung SDS | 17,472,110 | 2,437,359 | 4,437,916 |
| Samsung Biologics | 20,836,832 | 3,146,362 | 1 |
| Samsung SDI | 13,462,673 | 1,467,431 | 2 |
| Cheil Worldwide | 29,038,075 | 457,350 | 2 |

¹ The Group does not disclose published price quotations of Samsung biologics for 2015 as Samsung Biologics listed its shares in 2016.

² Due to increase in shareholding ratio for the year ended December 31, 2016, Samsung SDI and Cheil Worldwide were reclassified from available-for-sale financial assets to investments in associates.

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13. Property, Plant and Equipment

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

| <i>(In millions of Korean won)</i> | 2016 | | | | | |
|--|-------------|---------------------------------|--------------------------------|---------------------------------|--------------|---------------|
| | Land | Buildings and Structures | Machinery and Equipment | Construction In Progress | Other | Total |
| Balance as at January 1 | ₩7,848,432 | ₩22,453,296 | ₩43,077,879 | ₩10,970,052 | ₩2,127,451 | ₩86,477,110 |
| Acquisition cost | 7,848,432 | 32,850,110 | 147,315,096 | 10,970,052 | 6,303,834 | 205,287,524 |
| Accumulated depreciation and impairment | - | (10,396,814) | (104,237,217) | - | (4,176,383) | (118,810,414) |
| Acquisitions and capital expenditures ¹ | 37,735 | 3,482,228 | 12,769,230 | 8,230,900 | 974,275 | 25,494,368 |
| Business combinations | - | - | 4,492 | 240 | 2,271 | 7,003 |
| Depreciation | - | (1,631,089) | (16,814,751) | - | (866,680) | (19,312,520) |
| Disposals/Scrap | (28,331) | (26,384) | (80,552) | (5) | (66,684) | (201,956) |
| Impairment | - | (2,805) | (370,574) | - | (1,731) | (375,110) |
| Reclassification of assets held-for-sale | - | (11,922) | (20,131) | (7,660) | (45,156) | (84,869) |
| Other ² | 11,843 | 112,502 | (263,538) | (419,541) | 27,749 | (530,985) |
| Balance as at December 31 | ₩7,869,679 | ₩24,375,826 | ₩38,302,055 | ₩18,773,986 | ₩2,151,495 | ₩91,473,041 |
| Acquisition cost | 7,869,679 | 36,474,462 | 155,285,378 | 18,773,986 | 6,769,149 | 225,172,654 |
| Accumulated depreciation and impairment | - | (12,098,636) | (116,983,323) | - | (4,617,654) | (133,699,613) |

¹ The capitalized borrowing costs are ₩17,644 million and the interest rate used to calculate the borrowing costs eligible for capitalization is 0.95%.

² Other includes effects of changes in foreign currency exchange rates and effects of the offset related to government assistance.

| <i>(In millions of Korean won)</i> | 2015 | | | | | |
|--|-------------|---------------------------------|--------------------------------|---------------------------------|--------------|---------------|
| | Land | Buildings and Structures | Machinery and Equipment | Construction In Progress | Other | Total |
| Balance as at January 1 | ₩ 7,710,352 | ₩17,598,547 | ₩ 37,751,890 | ₩15,832,307 | ₩ 1,979,854 | ₩ 80,872,950 |
| Acquisition cost | 7,710,352 | 26,474,937 | 127,603,897 | 15,832,307 | 5,664,513 | 183,286,006 |
| Accumulated depreciation and impairment | - | (8,876,390) | (89,852,007) | - | (3,684,659) | (102,413,056) |
| Acquisitions and capital expenditures ¹ | 318,540 | 6,389,558 | 22,233,244 | (4,471,883) | 1,048,603 | 25,518,062 |
| Business combinations | 246 | 1,757 | 3,498 | 47 | 29,228 | 34,776 |
| Depreciation | - | (1,557,234) | (17,191,280) | - | (914,027) | (19,662,541) |
| Disposals/Scrap | (78,449) | (60,697) | (208,505) | (39) | (226,004) | (573,694) |
| Impairment | - | - | (78,240) | - | (454) | (78,694) |
| Other ² | (102,257) | 81,365 | 567,272 | (390,380) | 210,251 | 366,251 |
| Balance as at December 31 | ₩ 7,848,432 | ₩22,453,296 | ₩ 43,077,879 | ₩10,970,052 | ₩ 2,127,451 | ₩ 86,477,110 |
| Acquisition cost | 7,848,432 | 32,850,110 | 147,315,096 | 10,970,052 | 6,303,834 | 205,287,524 |
| Accumulated depreciation and impairment | - | (10,396,814) | (104,237,217) | - | (4,176,383) | (118,810,414) |

¹ The capitalized borrowing costs are ₩11,061 million and the interest rate used to calculate the borrowing costs eligible for capitalization is 1.12%.

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² Other includes effects of changes in foreign currency exchange rates and effects of the offset related to government assistance.

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

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|--|---------------------|---------------------|
| Cost of sales | ₩ 17,348,302 | ₩ 17,877,592 |
| Selling and administrative expenses and others | 1,964,218 | 1,784,949 |
| Total | ₩ 19,312,520 | ₩ 19,662,541 |

14. Intangible Assets

(A) Changes in intangible assets for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | | | | | |
|--|---|-----------------------------|-------------------|--------------------|--------------------|--------------------|
| | Intellectual property rights | Development cost | Membership | Goodwill | Other | Total |
| Balance as at January 1 | ₩ 1,342,104 | ₩ 1,697,545 | ₩ 184,915 | ₩ 910,539 | ₩ 1,261,208 | ₩ 5,396,311 |
| Internally generated (development costs) | - | 680,962 | - | - | - | 680,962 |
| External acquisitions | 275,288 | - | 802 | 4,922 | 85,694 | 366,706 |
| Business combinations | 70,199 | - | - | 503,045 | 63,674 | 636,918 |
| Amortization | (234,666) | (748,573) | - | - | (417,206) | (1,400,445) |
| Sales/disposals | (49,700) | - | (1,005) | - | (2,257) | (52,962) |
| Impairment | - | (449,297) | - | (15,143) | (9,054) | (473,494) |
| Reclassification of assets held- for-sale | (41,032) | - | (89) | (41,650) | (41,800) | (124,571) |
| Other ¹ | (12,429) | (19) | (224) | (18,133) | 345,400 | 314,595 |
| Balance as at December 31 | ₩ 1,349,764 | ₩ 1,180,618 | ₩ 184,399 | ₩ 1,343,580 | ₩ 1,285,659 | ₩ 5,344,020 |

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

| <i>(In millions of Korean won)</i> | 2015 | | | | | |
|---|---|-----------------------------|-------------------|------------------|--------------------|--------------------|
| | Intellectual property rights | Development cost | Membership | Goodwill | Other | Total |
| Balance as at January 1 | ₩ 1,340,481 | ₩ 1,239,933 | ₩ 182,415 | ₩ 739,576 | ₩ 1,283,068 | ₩ 4,785,473 |
| Internally generated (development costs) | - | 1,143,059 | - | - | - | 1,143,059 |
| External acquisitions | 234,740 | - | 3,272 | - | 67,358 | 305,370 |
| Business combinations | 20,691 | - | - | 316,724 | 36,809 | 374,224 |
| Amortization | (232,103) | (607,526) | - | - | (428,687) | (1,268,316) |
| Sales/disposals | (22,944) | - | (292) | - | (409) | (23,645) |
| Impairment | (21,957) | (76,703) | - | (178,696) | (7,275) | (284,631) |
| Other ¹ | 23,196 | (1,218) | (480) | 32,935 | 310,344 | 364,777 |
| Balance as at December 31 | ₩ 1,342,104 | ₩ 1,697,545 | ₩ 184,915 | ₩ 910,539 | ₩ 1,261,208 | ₩ 5,396,311 |

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

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(B) Goodwill

Goodwill is allocated to cash-generating units at the end of the reporting period. Details of goodwill as at December 31, 2016 and 2015, is as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|------------------------------------|--------------------|------------------|
| CE | ₩ 532,669 | ₩ 449,127 |
| IM | 644,468 | 290,338 |
| Semiconductor | 82,400 | 86,754 |
| DP | 80,299 | 80,299 |
| Other | 3,744 | 4,021 |
| Total | ₩ 1,343,580 | ₩ 910,539 |

Goodwill impairment reviews are undertaken annually, and the recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the industry. In addition, a constant growth rate assumption is used for perpetual cash flow calculation.

- (1) For the year ended December 31, 2016, The Group recognized an impairment loss of ₩15,143 million relating to the goodwill recorded by Samsung Electronics America (SEA) for which an associated inflow of economic benefits is no longer expected.
- (2) For the year ended December 31, 2015, pursuant to the results of the goodwill impairment reviews performed, the Group recognized an impairment of ₩79,277 million on goodwill recognized in LED division. The key assumptions used in calculating the value-in-use were as follows:

| <i>(In percentage, %)</i> | Key assumptions |
|------------------------------------|------------------------|
| Sales growth rate | 1.1 |
| Perpetual growth rate | 1.0 |
| Pre-tax discount rate ¹ | 9.5 |

¹ Pre-tax discount rate applied to the cash flow projections.

The sales growth rate was determined on the basis of past performance and expectations of market fluctuations. The discount rate reflects specific risks related to the division.

- (C) Details of amortization of intangible assets by line item for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|--|--------------------|--------------------|
| Cost of sales | ₩ 959,545 | ₩ 801,993 |
| Selling and administrative expenses and others | 440,900 | 466,323 |
| Total | ₩ 1,400,445 | ₩ 1,268,316 |

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15. Borrowings

(A) Details of the carrying amounts of borrowings as at December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | Financial Institutions | Annual Interest Rates (%) as at December 31, 2016 | 2016 | 2015 |
|--|-----------------------------------|--|--------------------|--------------------|
| Short-term borrowings | | | | |
| Collateralized borrowings ¹ | Woori Bank and others | 0.1 ~ 12.1 | ₩10,929,768 | ₩ 8,738,448 |
| Non-collateralized borrowings | Citibank and others | 0.5 ~ 18.9 | 1,817,021 | 2,416,977 |
| Total | | | ₩12,746,789 | ₩11,155,425 |
| Current portion of long-term borrowings | | | | |
| Bank borrowings | US Bank and others | 3.5 ~ 6.0 | ₩ 684 | ₩ 454 |
| Financial lease liabilities ² | CSSD and others | 1.1 ~ 15.7 | 18,599 | 15,652 |
| Total | | | ₩ 19,283 | ₩ 16,106 |
| Long-term borrowings | | | | |
| Bank borrowings | Citibank and others | LIBOR+0.4 ~ 19.8 | ₩ 1,179,111 | ₩ 193,598 |
| Financial lease liabilities ² | CSSD and others | 1.1 ~ 15.7 | 65,127 | 72,944 |
| Total | | | ₩ 1,244,238 | ₩ 266,542 |

¹ Collateralized borrowings are secured by trade receivables (Note 8 and 10).

² Leased property, plant and equipment were pledged as collateral (Note 19).

(B) Maturities of long-term borrowings outstanding as at December 31, 2016, are as follows:

| <i>(In millions of Korean won)</i> | Long-term borrowings |
|---|-----------------------------|
| For the Years Ending December 31 | |
| 2017 | ₩ 19,283 |
| 2018 | 293,805 |
| 2019 | 903,193 |
| 2020 | 8,144 |
| 2021 and thereafter | 39,096 |
| Total | ₩ 1,263,521 |

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16. Debentures

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

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|---|-------------|---------------|-------------|------------------|
| Korean won denominated debentures (A) | ₩ | - | ₩ | - |
| Foreign currency denominated debentures (B) | | 58,542 | | 1,230,448 |
| Total | ₩ | 58,542 | ₩ | 1,230,448 |

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

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

| <i>(In millions of Korean won)</i> | Issue Date | Due Date | Annual Interest Rates (%) as at December 31, 2016 | 2016 | | 2015 | |
|--|-------------------|-----------------|--|-------------|---------------------|-------------|---------------------|
| US dollar denominated straight bonds ¹ | 1997.10.2 | 2027.10.1 | 7.7 | ₩ | 66,468 | ₩ | 70,320 |
| | | | | | (US\$55 million) | | (US\$60 million) |
| US dollar denominated unsecured bonds ² | 2012.4.10 | 2017.4.10 | 1.8 | | 1,208,500 | | 1,172,000 |
| | | | | | (US\$1,000 million) | | (US\$1,000 million) |
| Less: Current portion | | | | | (1,214,543) | | (5,860) |
| Less: Discounts | | | | | (1,883) | | (6,012) |
| Total | | | | ₩ | 58,542 | ₩ | 1,230,448 |

¹ US dollar 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.

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(C) Maturities of debentures outstanding as at December 31, 2016, are as follows:

(In millions of Korean won)

| For the Years Ending December 31 | Debentures |
|----------------------------------|--------------------|
| 2017 | ₩ 1,214,543 |
| 2018 | 6,043 |
| 2019 | 6,043 |
| 2020 | 6,043 |
| 2021 and thereafter | 42,296 |
| Total | ₩ 1,274,968 |

17. Net Defined Benefit Liabilities (Assets)

(A) Details of net defined benefit liabilities(assets) recognized on the statements of financial position as at December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

| | 2016 | 2015 |
|---|--------------------|------------------|
| Present value of funded defined benefit obligations | ₩ 7,167,929 | ₩ 7,693,919 |
| Present value of unfunded defined benefit obligations | 110,885 | 138,860 |
| Subtotal | 7,278,814 | 7,832,779 |
| Fair value of plan assets | (7,662,249) | (7,473,959) |
| Total | ₩ (383,435) | ₩ 358,820 |

(B) The amounts recognized in the statements of profit or loss for the years ended December 31, 2016 and 2015 relating to defined benefit plans are as follows:

(In millions of Korean won)

| | 2016 | 2015 |
|----------------------|--------------------|--------------------|
| Current service cost | ₩ 1,077,511 | ₩ 1,147,127 |
| Net interest cost | 11,221 | 8,595 |
| Other | 2,319 | 3,324 |
| Total | ₩ 1,091,051 | ₩ 1,159,046 |

(C) The amounts recognized as expense of defined contribution plans for the years ended December 31, 2016 and 2015, are ₩105,971 million and ₩96,611 million, respectively.

(D) The pension expenses related to defined benefit plans recognized on the statements of profit or loss for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

| | 2016 | 2015 |
|--|--------------------|--------------------|
| Cost of sales | ₩ 469,172 | ₩ 500,660 |
| Selling and administrative expenses and others | 621,879 | 658,386 |
| Total | ₩ 1,091,051 | ₩ 1,159,046 |

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(E) Changes in the defined benefit obligations for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|---|-------------|-------------|
| Balance as at January 1 | ₩ 7,832,779 | ₩ 7,542,247 |
| Current service cost | 1,077,511 | 1,147,127 |
| Interest cost | 298,003 | 322,296 |
| Remeasurement: | | |
| Actuarial gains or losses arising from changes in demographic assumptions | (41,608) | 2,428 |
| Actuarial gains or losses arising from changes in financial assumptions | (1,062,656) | (315,630) |
| Other | (295,125) | (165,799) |
| Benefits paid | (474,112) | (700,205) |
| Foreign exchange differences | 1,846 | 2,568 |
| Other ¹ | (57,824) | (2,253) |
| Balance as at December 31 | ₩ 7,278,814 | ₩ 7,832,779 |

¹ Other includes effects of reclassification as assets held-for-sale.

(F) Changes in the fair value of plan assets for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|-------------------------------------|-------------|-------------|
| Balance as at January 1 | ₩ 7,473,959 | ₩ 7,340,905 |
| Expected return on plan assets | 286,782 | 313,701 |
| Remeasurement factor of plan assets | (123,794) | (137,262) |
| Contributions by employer | 498,504 | 292,951 |
| Benefits paid | (422,249) | (320,106) |
| Other ¹ | (50,953) | (16,230) |
| Balance as at December 31 | ₩ 7,662,249 | ₩ 7,473,959 |

¹ Other includes effects of changes in foreign currency exchange rates and reclassification as assets held-for-sale.

Expected contributions to post-employment benefit plans for the year ending December 31, 2017, are ₩1,196,040 million.

(G) Plan assets as at December 31, 2016 and 2015, consist of as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|------------------------------------|-------------|-------------|
| Debt instruments | ₩ 7,635,150 | ₩ 7,445,277 |
| Other | 27,099 | 28,682 |
| Total | ₩ 7,662,249 | ₩ 7,473,959 |

Plan assets are mostly invested in instruments which have a quoted price in active markets.

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(H) The principal actuarial assumptions as at December 31, 2016 and 2015, are as follows:

| | 2016 | 2015 |
|---|--------------|--------------|
| Discount rate | 0.4 ~ 8.2 % | 0.7 ~ 8.2 % |
| Salary growth rate (including the effects of inflation) | 1.5 ~ 10.0 % | 1.5 ~ 10.0 % |

(I) The sensitivity of the defined benefit obligations as at December 31, 2016 and 2015, to changes in the weighted principal assumptions is as follows:

| | 2016 | 2015 |
|--------------------|------|------|
| Discount rate | | |
| 1% increases | 90% | 89% |
| 1% decreases | 111% | 113% |
| Salary growth rate | | |
| 1% increases | 111% | 112% |
| 1% decreases | 90% | 89% |

(J) The weighted average duration of the defined benefit obligations is 10.48 years.

18. Provisions

Changes in provisions for the year ended December 31, 2016, are as follows:

| <i>(In millions of Korean won)</i> | Warranty (A) | Royalty expenses (B) | Long-term incentives (C) | Other(D, E) | Total |
|---|--------------|----------------------|--------------------------|-------------|-------------|
| Balance as at January 1 | ₩ 1,664,526 | ₩ 4,443,749 | ₩ 753,553 | ₩ 81,153 | ₩ 6,942,981 |
| Charged (credited) to the statement of income | 2,176,443 | (1,047,548) | 193,409 | 1,532,609 | 2,854,913 |
| Payment | (2,087,361) | (1,898,987) | (220,402) | (231,577) | (4,438,327) |
| Other ¹ | (5,751) | 90,823 | (10,308) | (478,788) | (404,024) |
| Balance as at December 31 | ₩ 1,747,857 | ₩ 1,588,037 | ₩ 716,252 | ₩ 903,397 | ₩ 4,955,543 |

¹ Other includes effects of changes in foreign currency exchange rates and reclassification as assets held-for sale.

(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 and the amount of payment depend on the settlement of the negotiations.

(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 records provisions for the estimated expenses occurring from discontinuing production and sale of products.

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(E) The Group makes provisions for the estimated expense for emissions in excess of the permits held by the Group for the applicable years:

(1) Allocated amount of emission permits and estimated volume of emission as at December 31, 2016 are as follows:

| <i>(In 10 thousand tons)</i> | 2016 |
|------------------------------|-------------|
| Allocated emission permits | 1,080 |
| Estimated volume of emission | 1,148 |

(2) Changes in the emission permits for the year ended December 31, 2016 are as follows:

| <i>(In millions of Korean won)</i> | 2016 | |
|------------------------------------|-------------|---------------|
| Balance as at January 1 | ₩ | 7,260 |
| Addition | | 12,907 |
| Used | | (5,100) |
| Balance as at December 31 | ₩ | 15,067 |

(3) Changes in the provisions for emissions liabilities during the year ended December 31, 2015 are as follows:

| <i>(In millions of Korean won)</i> | 2016 | |
|------------------------------------|-------------|---------------|
| Balance as at January 1 | ₩ | 7,947 |
| Charged to the statement of income | | 9,845 |
| Payment | | (5,100) |
| Balance as at December 31 | ₩ | 12,692 |

19. Commitments and Contingencies

(A) Guarantees

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

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|--|-------------|--------|-------------|--------|
| Guarantees of debt for housing rental ¹ | ₩ | 56,752 | ₩ | 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.

In addition to the guarantees described above, the Group provides guarantees for borrowings executed by Medicapital from Dime Investment and two other companies in the amount of ₩ 2,264 million. In consideration of possibility to bear the liability, the Group recognizes financial guarantee liabilities

(B) Leases

The Group leases certain property, plant and equipment under various finance lease arrangements and recognizes the related amounts as lease assets or liabilities. Assets with a net book value of ₩87,106 million (2015: ₩96,216 million) are treated as finance lease agreements and are included in property, plant and equipment. Depreciation expense for the finance lease assets amounted to ₩13,495 million for the year ended December 31, 2016 (2015: ₩12,916 million). Leased property, plant and equipment were pledged as collateral (Note 15).

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The minimum lease payments under finance lease agreements and their present value as at December 31, 2016 and 2015, are as follows:

| | 2016 | | 2015 | |
|------------------------------|---------------------------|-----------------|---------------------------|-----------------|
| | Minimum Lease payments | Present values | Minimum Lease payments | Present values |
| Within one year | ₩ 25,928 | ₩ 18,645 | ₩ 23,391 | ₩ 15,652 |
| From one year to five years | 56,732 | 31,461 | 60,405 | 32,895 |
| More than five years | 56,249 | 33,620 | 69,194 | 40,049 |
| Total | ₩ 138,909 | ₩ 83,726 | ₩ 152,990 | ₩ 88,596 |
| Present value adjustment | (55,183) | | (64,394) | |
| Finance lease payable | ₩ 83,726 | | ₩ 88,596 | |

(C) Litigation

- (1) The litigation with Apple Inc. (“Apple”) is ongoing in the United States as at 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 design-related appeals filed by the Group and on March 22, 2016, the Court of First Trial ordered all proceedings for review of damages scheduled to commence March 28, 2016 suspended until the sentence rendered by the Supreme Court was confirmed. On June 1, 2016, the Group submitted the draft document in the design-related appeal, and on June 28, 2016, several companies and organizations presented the document in support of the Group. Apple filed a dissenting document on July 29, 2016, and on August 5, 2016, several companies and organizations presented an advocative document. On August, 29, 2016, the Group submitted a rebuttal letter. Oral statements for the appeal were held at the Supreme Court on October 11, 2016. On December 6, 2016, the Supreme Court issued a ruling citing the Group appeal and returned the case to the Court of Appeals. On February 7, 2017, the Court of Appeals reversed the case to the Court of First Trial.

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

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Group's product. The Group asserts that the Group's product was designed around the patent and thus has not infringed the patent. 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.

- (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.

(D) Other commitments

As at December 31, 2016, the Group has a trade financing agreement, trade notes receivable discounting facilities, and loan facilities with accounts receivable pledged as collateral with 7 financial institutions, including Woori Bank, with a combined limit of up to ₩10,116,485 million. In addition, the Group has a trade financing agreement (up to ₩865,000 million and US\$8,253 million), loan facilities with accounts receivable pledged as collateral and other financial agreements (up to ₩1,638,865 million and JP ¥ 180,000 million) with 23 financial institutions, including Shinhan Bank.

Samsung Display Co., Ltd 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 at December 31, 2016 (Notes 6 and 31).

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20. Share Capital

The Group's total number of authorized shares is 500,000,000 shares (₩5,000 per share). The Group has issued 140,679,337 shares of common stock and 20,513,427 shares of preferred stock as at December 31, 2016, excluding retired shares. Due to the retirement of shares, the total par value of the shares issued is ₩805,964 million (common stock ₩703,397 million, preferred stock ₩102,567 million), which does not agree with paid-in capital of ₩897,514 million.

Changes in the number of shares outstanding for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In number of shares)</i> | Preferred stock | Common stock |
|--|-----------------|--------------|
| Balance as at January 1, 2015 | 19,722,484 | 130,204,596 |
| Disposal of treasury stock through exercise of stock options | - | 5,000 |
| Acquisition of treasury stock | (1,174,651) | (2,812,748) |
| Balance as at December 31, 2015 | 18,547,833 | 127,396,848 |
| Acquisition of treasury stock | (1,264,099) | (4,699,197) |
| Balance as at December 31, 2016 | 17,283,734 | 122,697,651 |

The Group retired 6,620,000 shares of common stock and 2,320,000 shares of preferred stock of which acquisition cost is ₩11,399,991 million in total on the basis of the Board of Directors' approval on October 29, 2015, January 28, 2016, April 28, 2016 and July 28, 2016.

21. Retained Earnings

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

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|------------------------------------|------|-------------|------|-------------|
| Appropriated | ₩ | 143,007,192 | ₩ | 131,539,594 |
| Unappropriated | | 50,079,125 | | 53,592,420 |
| Total | ₩ | 193,086,317 | ₩ | 185,132,014 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Dividends

Details of interim and year-end dividends are as follows:

(A) Interim dividends (Record date: June 30, 2016 and 2015)

(In millions of Korean won and number of shares)

| | | 2016 | 2015 |
|---|-----------------|--------------------|--------------------|
| Number of shares eligible for dividends | Common stock | 123,958,561 shares | 129,312,651 shares |
| | Preferred stock | 17,580,920 shares | 19,603,734 shares |
| Dividend rate | | 20% | 20% |
| Dividend amount | Common stock | ₩ 123,958 | ₩ 129,313 |
| | Preferred stock | 17,581 | 19,603 |
| Total | | ₩ 141,539 | ₩ 148,916 |

(B) Year-end dividends (Record date: December 31, 2016 and 2015)

(In millions of Korean won and number of shares)

| | | 2016 | 2015 |
|---|-----------------|--------------------|--------------------|
| Number of shares eligible for dividends | Common stock | 122,697,651 shares | 127,396,848 shares |
| | Preferred stock | 17,283,734 shares | 18,547,833 shares |
| Dividend rate | Common stock | 550% | 400% |
| | Preferred stock | 551% | 401% |
| Dividend amount | Common stock | ₩ 3,374,185 | ₩ 2,547,937 |
| | Preferred stock | 476,167 | 371,884 |
| Total | | ₩ 3,850,352 | ₩ 2,919,821 |

Samsung Electronics Co., Ltd. and Subsidiaries

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23. Other Components of Equity

Other components of equity as at December 31, 2016 and 2015, consist of as follows::

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|--|-----------------------|-----------------------|
| Treasury stock | ₩ (9,750,326) | ₩ (13,442,379) |
| Unrealized gains on available-for-sale financial assets | 1,390,624 | 1,478,330 |
| Share of other comprehensive income of associates and joint ventures | 94,694 | 362,342 |
| Foreign currency translation | (2,902,076) | (4,091,202) |
| Remeasurement of net defined benefit liabilities | (811,529) | (1,737,809) |
| Other | 44,027 | (149,733) |
| Total | ₩ (11,934,586) | ₩ (17,580,451) |

The Group repurchases registered common stock and non-voting preferred stock for the purpose of stock price stability and increase in shareholder value. The Group recognizes the repurchase amount in other components of equity. Treasury stock as at December 31, 2016 and 2015, consists of as follows::

| <i>(In millions of Korean won and number of shares)</i> | 2016 | | 2015 | |
|---|------------------------|---------------------|------------------------|---------------------|
| | Preferred Stock | Common Stock | Preferred Stock | Common Stock |
| Number of shares | 3,229,693 shares | 17,981,686 shares | 4,285,594 shares | 19,902,489 shares |
| Acquisition cost | ₩ 878,817 | ₩ 8,871,509 | ₩ 2,064,840 | ₩ 11,377,539 |

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24. Expenses by Nature

Expenses by nature for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|---|----------------------|----------------------|
| Changes in finished goods and work in process | ₩ 626,040 | ₩ (1,310,244) |
| Raw materials used and merchandise purchased | 73,512,658 | 77,774,274 |
| Wages and salaries | 19,269,035 | 18,366,965 |
| Pension | 1,197,022 | 1,255,657 |
| Depreciation | 19,312,520 | 19,662,541 |
| Amortization | 1,400,445 | 1,268,316 |
| Welfare | 3,495,336 | 3,852,929 |
| Commission and service charges | 8,002,513 | 8,439,586 |
| Other expenses | 45,810,504 | 44,930,016 |
| Total¹ | ₩ 172,626,073 | ₩ 174,240,040 |

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

25. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|---|---------------------|---------------------|
| 1) Selling and Administrative Expenses | | |
| Wages and salaries | ₩ 5,687,494 | ₩ 5,542,701 |
| Pension | 288,767 | 295,652 |
| Commissions and service charges | 8,002,513 | 8,439,586 |
| Depreciation | 780,223 | 714,883 |
| Amortization | 221,593 | 255,708 |
| Advertising | 4,432,109 | 3,852,478 |
| Sales promotion | 7,080,554 | 7,101,937 |
| Transportation | 3,334,693 | 3,433,215 |
| Warranty | 3,752,603 | 2,849,567 |
| Other | 4,656,428 | 4,566,500 |
| 2) Research and development expenses | | |
| Total expenses | 14,792,343 | 14,848,754 |
| Capitalized expenses | (680,962) | (1,143,059) |
| Total | ₩ 52,348,358 | ₩ 50,757,922 |

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26. Other Non-Operating Income and Expense

Details of other non-operating income for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|---|--------------------|--------------------|
| Dividend income | ₩ 239,899 | ₩ 183,730 |
| Rental income | 107,664 | 83,400 |
| Gain on disposal of investments | 2,053,744 | 262,073 |
| Gain on disposal of property, plant and equipment | 193,020 | 135,564 |
| Gain on disposal of assets as held-for-sale | 69,924 | 207,796 |
| Other | 574,010 | 813,384 |
| Total | ₩ 3,238,261 | ₩ 1,685,947 |

Details of other non-operating expense for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|---|--------------------|--------------------|
| Loss on disposal of property, plant and equipment | ₩ 126,516 | ₩ 161,510 |
| Donations | 407,087 | 446,391 |
| Impairment losses on investments | 341,790 | 1,890,097 |
| Impairment losses on intangible assets | 473,494 | 284,631 |
| Other | 1,114,927 | 940,805 |
| Total | ₩ 2,463,814 | ₩ 3,723,434 |

27. Financial Income and Costs

(A) Details of financial income and costs for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|--|---------------------|---------------------|
| Financial income | | |
| Interest income | | |
| Interest income from loans and receivables | ₩ 1,475,357 | ₩ 1,665,521 |
| Interest income from available-for-sale financial assets | 28,961 | 95,636 |
| Foreign exchange differences | 9,052,495 | 7,765,797 |
| Gains from derivatives | 828,832 | 987,925 |
| Total | ₩ 11,385,645 | ₩ 10,514,879 |

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|--|---------------------|---------------------|
| Financial costs | | |
| Interest expense: | | |
| Interest expense from financial liabilities measured at amortized cost | ₩ 351,009 | ₩ 567,181 |
| Other financial liabilities | 236,822 | 209,330 |
| Foreign exchange differences | 9,232,249 | 8,275,571 |
| Losses from derivatives | 886,533 | 979,689 |
| Total | ₩ 10,706,613 | ₩ 10,031,771 |

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

28. Income Tax

(A) Income tax expense for the years ended December 31, 2016 and 2015, consists of as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|---|--------------------|--------------------|
| Current taxes: | | |
| Current tax on profits for the year | ₩ 6,161,609 | ₩ 5,707,937 |
| Adjustments in respect to prior years | (244,791) | 1,077,780 |
| Deferred taxes: | | |
| Changes in carryforward of unused tax credits | (166,206) | 35,128 |
| Changes in temporary differences | 1,869,700 | (282,458) |
| Changes in carryforward of unused tax losses | 397,329 | 321,583 |
| Other | (30,081) | 41,369 |
| Items charged directly to equity | - | (488) |
| Income tax expense | ₩ 7,987,560 | ₩ 6,900,851 |

(B) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|---|--------------------|--------------------|
| Income before tax | ₩ 30,713,652 | ₩ 25,960,995 |
| Tax calculated at weighted average of applicable tax rates ¹ | 7,009,003 | 6,880,212 |
| Tax effects of: | | |
| Permanent differences | (687,901) | 25,886 |
| Temporary differences for which no deferred income tax was recognized | (12,825) | (55,186) |
| Tax credits | (608,218) | (824,893) |
| Results of interest in subsidiaries, associates and joint ventures | 2,288,893 | 560,668 |
| Impact of changes in tax rates | 1,280 | 6,291 |
| Other | (2,672) | 307,873 |
| Income tax expense | ₩ 7,987,560 | ₩ 6,900,851 |

¹ The weighted average of statutory tax rates are applied to the respective profits of the Group applicable to each tax authority as at December 31, 2016 and 2015.

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(C) Changes in deferred income tax assets and liabilities resulting from the tax effect of temporary differences for the years ended December 31, 2016 and 2015, are as follows:

(1) 2016

| <i>(In millions of Korean won)</i> | Temporary Differences | | Deferred Income Tax Assets (Liabilities) | | | |
|---|----------------------------|------------------------|--|----------------------------|------------------------|------------------------------|
| | Balance as at January 1 | Increase (Decrease) | Balance as at December 31 | Balance as at January 1 | Increase (Decrease) | Balance as at December 31 |
| Deferred tax arising from temporary differences | | | | | | |
| Special reserves appropriated for tax purposes | ₩ (7,368) | ₩ 7,000 | ₩ (368) | ₩ (1,783) | ₩ 1,694 | ₩ (89) |
| Revaluation of land | (3,455,958) | 11,704 | (3,444,254) | (836,342) | 2,832 | (833,510) |
| Investments in subsidiaries, associates and joint ventures ¹ | (41,729,872) | (17,540,434) | (59,270,306) | (5,173,897) | (2,362,840) | (7,536,737) |
| Depreciation | 2,627,073 | 281,473 | 2,908,546 | 651,988 | (7,862) | 644,126 |
| Accrued income | (309,545) | 51,235 | (258,310) | (71,086) | (7,885) | (78,971) |
| Provisions and accrued expenses | 13,322,516 | 136,265 | 13,458,781 | 3,519,564 | (286,776) | 3,232,788 |
| Foreign currency translation | 221,793 | (56,235) | 165,558 | 58,567 | (13,960) | 44,607 |
| Asset impairment losses | 652,768 | 574,585 | 1,227,353 | 160,975 | 140,231 | 301,206 |
| Other | (193,612) | 1,673,283 | 1,479,671 | (14,734) | 664,866 | 650,132 |
| Subtotal | ₩ (28,872,205) | ₩ (14,861,124) | ₩ (43,733,329) | ₩ (1,706,748) | (1,869,700) | ₩ (3,576,448) |
| Deferred tax arising from carryforwards | | | | | | |
| Unused tax losses | ₩ 6,178,327 | ₩ (1,486,967) | ₩ 4,691,360 | ₩ 1,495,976 | ₩ (397,329) | ₩ 1,098,647 |
| Unused tax credits | 631,362 | 242,093 | 873,455 | 555,041 | 166,206 | 721,247 |
| Deferred tax recognized in other comprehensive income | | | | | | |
| Valuation of available-for-sale financial instruments | ₩ (1,976,829) | ₩ 6,996 | ₩ (1,969,833) | ₩ (453,192) | ₩ 6,436 | ₩ (446,756) |
| Actuarial valuation | 2,299,154 | (1,275,595) | 1,023,559 | 543,239 | (311,993) | 231,246 |
| Subtotal | ₩ 322,325 | ₩ (1,268,599) | ₩ (946,274) | ₩ 90,047 | ₩ (305,557) | ₩ (215,510) |
| Deferred tax assets | | | | | | ₩ 5,321,450 |
| Deferred tax liabilities | | | | | | (7,293,514) |
| Total | | | | | | ₩ (1,972,064) |

¹ Deferred tax assets were not recognized if it is probable that the temporary differences will not reverse in the foreseeable future for investments in subsidiaries, associates and joint ventures.

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(2) 2015

| <i>(In millions of Korean won)</i> | Temporary Differences | | | Deferred Income Tax Assets (Liabilities) | | |
|---|----------------------------|------------------------|------------------------------|--|------------------------|------------------------------|
| | Balance as at January 1 | Increase (Decrease) | Balance as at December 31 | Balance as at January 1 | Increase (Decrease) | Balance as at December 31 |
| Deferred tax arising from temporary differences | | | | | | |
| Special reserves appropriated for tax purposes | ₩ (14,368) | ₩ 7,000 | ₩ (7,368) | ₩ (3,477) | ₩ 1,694 | ₩ (1,783) |
| Revaluation of land | (3,475,692) | 19,734 | (3,455,958) | (841,117) | 4,775 | (836,342) |
| Investments in subsidiaries, associates and joint ventures ¹ | (31,469,156) | (10,260,716) | (41,729,872) | (4,242,098) | (931,799) | (5,173,897) |
| Depreciation | 2,609,052 | 18,021 | 2,627,073 | 643,194 | 8,794 | 651,988 |
| Accrued income | (535,671) | 226,126 | (309,545) | (132,237) | 61,151 | (71,086) |
| Provisions and accrued expenses | 11,432,901 | 1,889,615 | 13,322,516 | 2,958,810 | 560,754 | 3,519,564 |
| Foreign currency translation | 98,788 | 123,005 | 221,793 | 25,516 | 33,051 | 58,567 |
| Asset impairment losses | 579,655 | 73,113 | 652,768 | 141,377 | 19,598 | 160,975 |
| Other | (2,233,868) | 2,040,256 | (193,612) | (539,174) | 524,440 | (14,734) |
| Subtotal | ₩ (23,008,359) | ₩ (5,863,846) | ₩ (28,872,205) | ₩ (1,989,206) | ₩ 282,458 | ₩ (1,706,748) |
| Deferred tax arising from carryforwards | | | | | | |
| Unused tax losses | ₩ 7,465,339 | ₩ (1,287,012) | ₩ 6,178,327 | ₩ 1,817,559 | ₩ (321,583) | ₩ 1,495,976 |
| Unused tax credits | 739,448 | (108,086) | 631,362 | 590,169 | (35,128) | 555,041 |
| Deferred tax recognized in other comprehensive income | | | | | | |
| Valuation of available-for-sale financial instruments | ₩ (2,549,385) | ₩ 572,556 | ₩ (1,976,829) | ₩ (610,738) | ₩ 157,546 | ₩ (453,192) |
| Actuarial valuation | 2,640,893 | (341,739) | 2,299,154 | 621,000 | (77,761) | 543,239 |
| Subtotal | ₩ 91,508 | ₩ 230,817 | ₩ 322,325 | ₩ 10,262 | ₩ 79,785 | ₩ 90,047 |
| Deferred tax assets | | | | | | ₩ 5,589,108 |
| Deferred tax liabilities | | | | | | (5,154,792) |
| Total | | | | | | ₩ 434,316 |

¹ Deferred tax assets were not recognized if it is probable that the temporary differences will not reverse in the foreseeable future for investments in subsidiaries, associates and joint ventures.

The Group periodically assesses its ability to recover deferred tax assets. In the event of a significant uncertainty regarding the Group's ultimate ability to recover such assets, deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Temporary differences whose deferred tax effects were not recognized due to uncertainty regarding the ultimate realizability of such assets as at December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|------------------------------------|----------|----------|
| Unused tax losses ¹ | ₩ 58,969 | ₩ 34,899 |
| Unused tax credits ¹ | 31,205 | 22,584 |

¹Expiry dates of unused tax losses and unused tax credits for which no deferred tax asset is recognized in the balance sheet are as follows:

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| <i>(In millions of Korean won)</i> | 2017 | 2018 | 2019 | 2020 and after |
|------------------------------------|-------------|-------------|-------------|-----------------------|
| Undisposed accumulated deficit | | | | ₩ 58,969 |
| Tax credit carryforwards | 4,789 | 1,704 | 19,279 | 5,433 |

(D) The liquidity analysis of deferred tax assets and deferred tax liabilities for the year ended December 31, 2016 and 2015 is as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|--|---------------|-------------|
| Deferred tax assets | | |
| Deferred tax assets to be recovered within 12 months | ₩ 3,066,577 | ₩ 2,401,806 |
| Deferred tax assets to be recovered after more than 12 months | 2,254,873 | 3,187,302 |
| Subtotal | 5,321,450 | 5,589,108 |
| Deferred tax liabilities | | |
| Deferred tax liabilities to be recovered after more than 12 months | (7,293,514) | (5,154,792) |
| Subtotal | (7,293,514) | (5,154,792) |
| Total | ₩ (1,972,064) | ₩ 434,316 |

29. Earnings per Share

(A) Basic earnings per share

Basic earnings per share for the years ended December 31, 2016 and 2015, are calculated as follows:

(1) Common stock

| <i>(In millions of Korean won, except per share data, and thousands of number of shares)</i> | 2016 | 2015 |
|--|--------------|--------------|
| Profit attributable to owners of the Parent company | ₩ 22,415,655 | ₩ 18,694,628 |
| Profit available for common stock | 19,647,199 | 16,317,275 |
| Weighted-average number of common shares outstanding | 124,375 | 129,190 |
| Basic earnings per share | ₩ 157,967 | ₩ 126,305 |

(2) Preferred stock

| <i>(In millions of Korean won, except per share data, and thousands of number of shares)</i> | 2016 | 2015 |
|--|--------------|--------------|
| Profit attributable to owners of the Parent company | ₩ 22,415,655 | ₩ 18,694,628 |
| Profit available for common stock | 2,768,456 | 2,377,353 |
| Weighted-average number of preferred shares outstanding | 17,692 | 19,519 |
| Basic earnings per preferred share | ₩ 156,480 | ₩ 121,798 |

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(B) Diluted earnings per share

The Group had one category of potentially dilutive common shares: stock options. Dilutive earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common 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 year ended December 31, 2016.

Diluted earnings per share for the years ended December 31, 2016 and 2015, is calculated as follows:

(1) Common stock

| <i>(In millions of Korean won, except per share data, and thousands of number of shares)</i> | 2016 | 2015 |
|--|--------------|--------------|
| Profit available for common stock and common stock equivalents | ₩ 19,647,199 | ₩ 16,317,276 |
| Weighted-average number of shares of common stock and dilutive potential common stock | 124,375 | 129,192 |
| Diluted earnings per share | ₩ 157,967 | ₩ 126,303 |

(2) Preferred stock

| <i>(In millions of Korean won, except per share data, and thousands of number of shares)</i> | 2016 | 2015 |
|--|-------------|-------------|
| Net income available for preferred stock and preferred stock equivalents | ₩ 2,768,456 | ₩ 2,377,352 |
| Weighted-average number of shares of preferred stock and dilutive potential preferred stock | 17,692 | 19,519 |
| Diluted earnings per preferred share | ₩ 156,480 | ₩ 121,798 |

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30. Cash Generated from Operations

(A) Adjustments and changes in assets and liabilities arising from operating activities for the years ended December 31, 2016 and 2015, are as follows:

- Adjustments

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|---|--------------|--------------|
| Adjustments for: | | |
| Income tax expense | ₩ 7,987,560 | ₩ 6,900,851 |
| Financial income | (3,521,050) | (3,339,267) |
| Financial costs | 2,500,020 | 2,466,042 |
| Severance and retirement benefits | 1,197,022 | 1,255,657 |
| Depreciation | 19,312,520 | 19,662,541 |
| Amortization | 1,400,445 | 1,268,316 |
| Bad debt expenses | 701,335 | 388,792 |
| Dividend income | (239,899) | (183,730) |
| Gain on valuation of equity method investments | (19,501) | (1,101,932) |
| Gain on disposal of property, plant and equipment | (193,020) | (135,564) |
| Loss on disposal of property, plant and equipment | 126,516 | 161,510 |
| Obsolescence and scrapping of inventories | 2,959,042 | 963,637 |
| Gain on disposal of investments | (2,053,744) | (262,073) |
| Gain on disposal of assets as held-for-sale | (69,924) | (207,796) |
| Impairment losses on investments | 341,790 | 1,890,097 |
| Impairment losses on intangible assets | 473,494 | 284,631 |
| Other income/expense | (148,135) | (400,741) |
| Adjustments, total | ₩ 30,754,471 | ₩ 29,610,971 |

- Changes in assets and liabilities arising from operating activities

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|--|---------------|---------------|
| Changes in assets and liabilities: | | |
| Decrease in trade receivables | ₩ 1,473,776 | ₩ 207,676 |
| (Increase) decrease in other receivables | (160,500) | 206,245 |
| Decrease (increase) in advances | 145,053 | (40,938) |
| (Increase) decrease in prepaid expenses | (46,026) | 611,089 |
| Increase in inventories | (2,830,602) | (2,616,203) |
| Increase (decrease) in trade payables | 200,240 | (1,871,175) |
| Increase in other payables | 1,144,756 | 650,861 |
| Decrease in advances received | (105,460) | (76,233) |
| Decrease in withholdings | (302,901) | (163,124) |
| Increase (decrease) in accrued expenses | 1,136,440 | (1,243,649) |
| (Decrease) increase in provisions | (1,604,824) | 503,661 |
| Payment of severance benefits | (474,112) | (700,205) |
| (Increase) decrease in plan assets | (76,255) | 27,155 |
| Other | 319,462 | (177,192) |
| Changes in net working capital, total | ₩ (1,180,953) | ₩ (4,682,032) |

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(B) The Group's statements of cash flows are prepared using indirect method. Significant transactions not affecting cash flows for the years ended December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|--|-------------|---------------|
| Valuation of available-for-sale financial assets | ₩ 798,698 | ₩ (1,218,782) |
| Reclassification of construction in progress and machinery in transit to property, plant and equipment | 17,131,444 | 29,846,423 |
| Reclassification of available-for-sale financial assets to assets held-for-sale | - | 77,073 |
| Valuation of investments in associates and joint ventures | 36,152 | 12,857 |
| Reclassification of current maturities of long-term borrowings | 19,283 | 16,106 |
| Reclassification of current maturities of bonds | 1,214,543 | 205,860 |
| Reclassification of available-for-sale financial assets to investment in associates | 1,742,242 | - |
| Reclassification of Printing Solutions division to held-for-sale | 508,228 | - |

(C) The Group reported cash receipts and payments arising from transactions occurring frequently and short-term financial instruments, loans, and borrowings on a net basis.

31. 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. Foreign exchange risk management of the Group is carried out by both SEC and its subsidiaries. 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-

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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.

The foreign currency exposure to financial assets and liabilities of a 5% currency rate change against the Korean won are presented below:

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|------------------------------------|-----------|-------------|-----------|-------------|
| | Increase | Decrease | Increase | Decrease |
| USD | ₩ 222,149 | ₩ (222,149) | ₩ 143,266 | ₩ (143,266) |
| EUR | 138,084 | (138,084) | 19,626 | (19,626) |
| JPY | (61,294) | 61,294 | (15,120) | 15,120 |

(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 at December 31, 2016 and 2015, a price fluctuation in Company relation to marketable equity securities by 1% would result in changes in other comprehensive income (before income tax) of ₩23,622 million and ₩46,748 million, respectively.

(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.

The sensitivity risk of the Group is determined based on the following assumptions:

- Changes in market interest rates that could impact the interest income and expenses of floating interest rate financial instruments

Based on the above assumption, changes to profit and net equity as a result of 1% increases in interest rates on borrowings are presented below:

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|------------------------------------|----------|----------|----------|----------|
| | Increase | Decrease | Increase | Decrease |

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| | | | | |
|-----------------------|----------|------------|----------|------------|
| Financial assets | ₩ 64,803 | ₩ (64,803) | ₩ 81,962 | ₩ (81,962) |
| Financial liabilities | (9,123) | 9,123 | (22,314) | 22,314 |
| Net effect | ₩ 55,680 | ₩ (55,680) | ₩ 59,648 | ₩ (59,648) |

(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.

The following table is an undiscounted cash flow analysis for financial liabilities that are presented on the statements of financial position according to their remaining contractual maturity.

| <i>(In millions of Korean won)</i> | 2016 | | | | |
|------------------------------------|-------------------------------|-----------------------|------------------------|----------------------|------------------------------|
| | Less than 3 months | 4-6 months | 7-12 months | 1-5 years | More than 5 years |
| Financial liabilities | ₩ 40,918,912 | ₩ 1,588,798 | ₩ 150,744 | ₩ 4,346,200 | ₩ 50,073 |

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| <i>(In millions of Korean won)</i> | 2015 | | | | |
|------------------------------------|-----------------------|---------------|----------------|--------------|----------------------|
| | Less than 3 months | 4-6 months | 7-12 months | 1-5 years | More than 5 years |
| Financial liabilities | ₩ 32,275,387 | ₩ 412,196 | ₩ 1,331,166 | ₩ 3,057,099 | ₩ 476,432 |

The table above shows the Group's financial liabilities based on the remaining period at the statement of financial position date until the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Group's trading portfolio of derivative instruments has been included at its fair value of ₩74,697 million (December 31, 2014: ₩38,829 million). These contracts are managed on a net-fair value basis rather than by maturity date. Net settled derivatives consist of forward exchange contracts used by the Group to manage the exchange rate profile.

The maximum liquidity risk exposure from those other than the above financial liabilities (e.g., payment guarantees for affiliated companies and performance bonds) as at December 31, 2016 is ₩59,016 million (December 31, 2015: ₩67,017 million).

(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 at December 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 at December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | 2016 | 2015 |
|------------------------------------|--------------|--------------|
| Total liabilities | ₩ 69,211,291 | ₩ 63,119,716 |
| Total equity | 192,963,033 | 179,059,805 |
| Total liabilities to equity ratio | 35.9% | 35.3% |

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(E) Fair value estimation

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

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|--|-----------------|--------------|-----------------|--------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets | | | | |
| Cash and cash equivalents | ₩ 32,111,442 | ¹ | ₩ 22,636,744 | ¹ |
| Short-term financial instruments | 52,432,411 | ¹ | 44,228,800 | ¹ |
| Short-term available-for-sale financial assets | 3,638,460 | 3,638,460 | 4,627,530 | 4,627,530 |
| Trade receivables | 24,279,211 | ¹ | 25,168,026 | ¹ |
| Long-term available-for-sale financial assets ² | 6,804,276 | 5,826,507 | 8,332,480 | 8,225,687 |
| Other ³ | 3,459,863 | 919,071 | 3,546,434 | 1,070,839 |
| Total financial assets | ₩ 122,725,663 | | ₩ 108,540,014 | |
| Financial liabilities | | | | |
| Trade payables | ₩ 6,485,039 | ¹ | ₩ 6,187,291 | ¹ |
| Short-term borrowings | 12,746,789 | ¹ | 11,155,425 | ¹ |
| Other payables | 10,225,271 | ¹ | 7,625,490 | ¹ |
| Current portion of long-term liabilities | 1,232,817 | ¹ | 221,548 | ¹ |
| Debentures | 58,542 | 76,129 | 1,230,448 | 1,261,783 |
| Long-term borrowings | 1,244,238 | 1,225,455 | 266,542 | 242,603 |
| Long-term other payables | 3,009,659 | 3,022,821 | 2,719,674 | 2,581,985 |
| Other ³ | 11,942,469 | 74,697 | 7,947,398 | 38,829 |
| Total financial liabilities | ₩ 46,944,824 | | ₩ 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 Amount measured at cost (2016: ₩977,770 million, 2015: ₩106,793 million) is excluded as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

³ Assets measured at cost of ₩2,452,118 million (December 31, 2015: ₩2,349,454 million) and liabilities measured at cost of ₩11,867,772 million (December 31, 2015: ₩7,908,569) are excluded as the carrying amount is a reasonable approximation of fair value.

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(2) The following table presents the assets and liabilities, by level, that are measured or disclosed at fair value as at December 31, 2016 and 2015:

| <i>(In millions of Korean won)</i> | 2016 | | | |
|--|-----------|-------------|-----------|---------------|
| | Level 1 | Level 2 | Level 3 | Total balance |
| 1) Assets | | | | |
| Short-term available-for-sale financial assets | ₩ - | ₩ 3,638,460 | ₩ - | ₩ 3,638,460 |
| Long-term available-for-sale financial assets | 2,362,235 | - | 3,464,272 | 5,826,507 |
| Other | - | 919,071 | - | 919,071 |
| 2) Liabilities | | | | |
| Debentures | - | 76,129 | - | 76,129 |
| Long-term borrowings | - | 1,225,455 | - | 1,225,455 |
| Long-term other payables | - | 2,680,119 | 342,702 | 3,022,821 |
| Derivatives | - | 74,697 | - | 74,697 |
| | | | | |
| <i>(In millions of Korean won)</i> | 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 | 4,674,753 | 78,189 | 3,472,745 | 8,225,687 |
| Other | - | 1,055,240 | 15,599 | 1,070,839 |
| 2) Liabilities | | | | |
| Debentures | - | 1,261,783 | - | 1,261,783 |
| Long-term borrowings | - | 242,603 | - | 242,603 |
| Long-term other payables | - | 2,269,247 | 312,738 | 2,581,985 |
| Derivatives | - | 38,829 | - | 38,829 |

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.

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

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 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 | | | | |
| Maltani (formerly Taewon Lighting) | ₩ 16,270 | Discounted cash flow | Permanent growth rate Weighted average cost of capital | -1.00%~1.00%(0%) 7.45%~9.45%(8.45%) |
| Samsung Venture Investment | 7,515 | Discounted cash flow | Permanent growth rate Weighted average cost of capital | -1.00%~1.00%(0%) 21.31%~23.31%(22.31%) |
| Corning Incorporated convertible preferred stock | 3,440,487 | Trinomial model | Risk adjusted discount rate Price volatility | 5.74%~7.74%(6.74%) 27.8%~33.8%(30.80%) |
| Long-term other payables | | | | |
| Contingent financial liability | 342,702 | Discounted cash flow | Weighted average cost of capital | 3.81%~4.65%(4.23%) |

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(4) Changes in Level 3 instruments for the years ended December 31, 2016 and 2015 are as follows:

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|---|-------------|-----------|-------------|-----------|
| Financial assets | | | | |
| Balance as of January 1 | ₩ | 3,488,344 | ₩ | 3,548,095 |
| Purchases | | - | | 119,297 |
| Disposals | | (14,805) | | (55,986) |
| Amount recognized in profit or loss | | (795) | | 3,530 |
| Amount recognized in other comprehensive income(loss) | | 695,631 | | (304,012) |
| Others | | (704,103) | | 177,420 |
| Balance as at December 31 | ₩ | 3,464,272 | ₩ | 3,488,344 |

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|-------------------------------------|-------------|----------|-------------|---------|
| Financial liabilities | | | | |
| Balance as of January 1 | ₩ | 312,738 | ₩ | - |
| Amount recognized in profit or loss | | (29,964) | | 312,738 |
| Balance as at December 31 | ₩ | 342,702 | ₩ | 312,738 |

(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 (before-tax amount for other comprehensive income or loss) from changes in inputs for each financial instrument which is 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 | ₩ - | ₩ 194,732 | ₩ - | ₩ (227,857) |
| Long-term other payables ² | 1,920 | 1,920 | (1,932) | (1,932) |
| Total | ₩ - | ₩ 196,652 | ₩ (1,932) | ₩ (229,789) |

¹ For equity securities changes in their fair value are calculated with the correlation between growth ratio (-1% to 1%) and discount rate, which are significant unobservable inputs.

² The fair value long-term payables is calculated by increasing and decreasing the correlation between discount rate and volatility by 10% which are significant unobservable inputs.

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32. 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 year ended December 31, 2016

| 2016 (In millions of Korean won) | DS | | | | | | Intercompany elimination within the group | Consolidated |
|--|--------------|---------------|--------------------|-------------------|--------------|--------------------|--|--------------|
| | CE | IM | Total ¹ | Semi conductor | DP | Total ¹ | | |
| Total segment revenue | ₩109,672,506 | ₩211,523,973 | ₩159,473,455 | ₩ 99,527,926 | ₩ 55,884,739 | ₩482,046,125 | ₩ (280,179,380) | ₩201,866,745 |
| Intercompany revenue | (62,627,083) | (111,221,861) | (81,325,252) | (48,370,924) | (28,956,095) | (280,179,380) | 280,179,380 | - |
| Net revenue ² | 47,045,423 | 100,302,112 | 78,148,203 | 51,157,002 | 26,928,644 | 201,866,745 | - | 201,866,745 |
| Depreciation | 560,095 | 1,303,509 | 17,041,961 | 12,548,152 | 4,271,617 | 19,312,520 | - | 19,312,520 |
| Amortization | 73,581 | 175,351 | 960,611 | 812,652 | 130,398 | 1,400,445 | - | 1,400,445 |
| Operating profit | 2,638,002 | 10,807,569 | 15,850,986 | 13,595,004 | 2,226,626 | 29,240,672 | - | 29,240,672 |

¹ Includes other amounts not included in specific operating segments.

² Segment net revenue includes intersegment revenues.

(2) For the year ended December 31, 2015

| 2015 (In millions of Korean won) | DS | | | | | | Intercompany elimination within the group | Consolidated |
|--|--------------|---------------|--------------------|-------------------|--------------|--------------------|--|--------------|
| | CE | IM | Total ¹ | Semi conductor | DP | Total ¹ | | |
| Total segment revenue | ₩120,688,835 | ₩222,023,600 | ₩149,974,731 | ₩ 90,600,806 | ₩ 55,120,243 | ₩493,313,476 | ₩ (292,659,994) | ₩200,653,482 |
| Intercompany revenue | (73,793,424) | (118,469,345) | (74,948,617) | (43,014,054) | (27,633,382) | (292,659,994) | 292,659,994 | - |
| Net revenue ² | 46,895,411 | 103,554,255 | 75,026,114 | 47,586,752 | 27,486,861 | 200,653,482 | - | 200,653,482 |
| Depreciation | 600,216 | 1,175,340 | 17,244,351 | 12,481,198 | 4,534,914 | 19,662,541 | - | 19,662,541 |
| Amortization | 98,154 | 182,661 | 790,369 | 646,110 | 130,416 | 1,268,316 | - | 1,268,316 |
| Operating profit | 1,254,187 | 10,142,022 | 14,887,262 | 12,787,297 | 2,295,367 | 26,413,442 | - | 26,413,442 |

¹ Includes other amounts not included in specific operating segments.

² Segment net revenue includes intersegment revenues.

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(B) Regional information

The regional segment information provided to the Management Committee for the reportable segments as at and for the years ended December 31, 2016 and 2015, is as follows:

| <i>(In millions of Korean won)</i> | 2016 | | | | | | Intercompany elimination within the group | Consolidated |
|------------------------------------|------------|------------|------------|--------------------|------------|-----------|--|--------------|
| | Korea | America | Europe | Asia and Africa | China | | | |
| Net segment revenue | 20,201,828 | 68,728,575 | 38,253,185 | 39,099,991 | 35,583,166 | - | 201,866,745 | |
| Non-current assets ¹ | 68,978,040 | 7,041,731 | 730,490 | 9,626,711 | 11,132,720 | (483,191) | 97,026,501 | |

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

| <i>(In millions of Korean won)</i> | 2015 | | | | | | Intercompany elimination within the group | Consolidated |
|------------------------------------|------------|------------|------------|--------------------|------------|-----------|--|--------------|
| | Korea | America | Europe | Asia and Africa | China | | | |
| Net segment revenue | 20,827,822 | 68,944,447 | 38,629,442 | 41,265,504 | 30,986,267 | - | 200,653,482 | |
| Non-current assets ¹ | 63,691,863 | 7,600,852 | 709,513 | 7,596,102 | 12,820,469 | (545,378) | 91,873,421 | |

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

33. Related Party Transactions

(A) Sale and purchase transactions

Sales and purchases with related parties for the years ended December 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 | ₩ 46,073 | ₩ - | ₩1,585,089 | ₩ 199,728 |
| | Samsung Electro-Mechanics | 27,516 | 23 | 2,280,953 | - |
| | Samsung SDI ² | 59,322 | 397 | 1,072,830 | 32,576 |
| | Cheil Worldwide ³ | 672 | - | 214,061 | - |
| | Other | 286,880 | 113 | 6,693,656 | 214,728 |
| | Total (Associates and Joint ventures) | 420,463 | 533 | 11,846,589 | 447,032 |
| Other related parties | Samsung C&T. ⁴ | 42,905 | 74 | 249,088 | 3,343,979 |
| | Other | 231,878 | 1,557,589 | 763,500 | 398,514 |
| | Total (Other related parties) | 274,783 | 1,557,663 | 1,012,588 | 3,742,493 |
| Others ⁵ | Samsung Engineering | 15,677 | - | 17,627 | 2,485,027 |
| | S-1 | 35,846 | - | 323,792 | 37,590 |
| | Other | 58,054 | 83,298 | 663,222 | 65 |
| | Total (Others) | 109,577 | 83,298 | 1,004,641 | 2,522,682 |

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

² During the year ended December 31, 2016, Samsung SDI was included in associates as the Group's ownership of common outstanding stock was increased.

³ During the year ended December 31, 2016, Cheil Worldwide was included in associates due to acquisition of shares.

⁴ During the year ended December 31, 2015, Cheil Industries Inc. merged Samsung C&T and changed its name to Samsung C&T.

⁵ Although these entities are not related parties of the Group in accordance with Korean IFRS 1024, they belong to same enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

| <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 | ₩ 38,885 | ₩ - | ₩1,615,824 | ₩ 201,748 |
| | Samsung Electro-Mechanics | 27,437 | - | 2,806,123 | 2 |
| | Other | 319,090 | 3,526 | 5,541,899 | 323,363 |
| | Total (Associates and Joint ventures) | 385,412 | 3,526 | 9,963,846 | 525,113 |
| Other related parties | Samsung C&T. ² | 9,630 | - | 113,098 | 1,850,655 |
| | Samsung SDI | 59,879 | 326 | 1,518,575 | 24,606 |
| | Other | 117,432 | - | 1,239,441 | 968,840 |
| | Total (Other related parties) | 186,941 | 326 | 2,871,114 | 2,844,101 |
| Others ³ | Samsung Engineering | 9,232 | - | 24,630 | 1,205,414 |
| | S-1 | 38,290 | - | 283,295 | 57,039 |
| | Other | 77,706 | 88 | 817,212 | 143,981 |
| | Total (Others) | 125,228 | 88 | 1,125,137 | 1,406,434 |

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

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

³ Although these entities are not related parties of the Group in accordance with Korean IFRS 1024, they belong to the same large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

(B) Balances of receivables and payables

Balances of receivables and payables arising from sales and purchases of goods and services as at December 31, 2016 and 2015, are as follows:

| <i>(In millions of Korean won)</i> | Name of Company ¹ | 2016 | |
|------------------------------------|--|----------------|------------------|
| | | Receivables | Payables |
| Associates and Joint ventures | Samsung SDS | ₩ 5,709 | ₩ 362,062 |
| | Samsung Electro-Mechanics | 1,143 | 108,469 |
| | Samsung SDI ² | 89,721 | 76,211 |
| | Cheil Worldwide ³ | 456 | 436,624 |
| | Other | 210,891 | 784,475 |
| | Total (Associates and Joint ventures) | 307,920 | 1,767,841 |
| Other related parties | Samsung C&T ⁴ | 231,089 | 435,505 |
| | Other | 31,752 | 1,932,924 |
| | Total (Other related parties) | 262,841 | 2,368,429 |
| Others ⁵ | Samsung Engineering | 10,664 | 115,726 |
| | S-1 | 4,160 | 47,098 |
| | Other | 3,058 | 28,841 |
| | Total (Others) | 17,882 | 191,665 |

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

² During the year ended December 31, 2016, Samsung SDI was included in associates as the Group's ownership of common

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outstanding stock was increased.

³ During the year ended December 31, 2016, Cheil Worldwide was included in associates due to acquisition of shares.

⁴ During the year ended December 31, 2015, Cheil Industries Inc. merged Samsung C&T and changed its name to Samsung C&T.

⁵ Although these entities are not related parties of the Group in accordance with Korean IFRS 1024, they belong to the same large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

| <i>(In millions of Korean won)</i> | Name of Company ¹ | 2015 | |
|------------------------------------|--|----------------|------------------|
| | | Receivables | Payables |
| | Samsung SDS | ₩ 3,578 | ₩ 311,648 |
| Associates and Joint ventures | Samsung Electro-Mechanics | 608 | 216,869 |
| | Other | 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 |
| | Other | 19,456 | 161,048 |
| | Total (Other related parties) | 318,253 | 1,697,653 |
| Others ³ | Samsung Engineering | 3,970 | 457,817 |
| | S-1 | 2,825 | 61,739 |
| | Other | 4,546 | 385,649 |
| | Total (Others) | 11,341 | 905,205 |

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.

³ Although these entities are not related parties of the Group in accordance with Korean IFRS 1024, they belong to the same large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

(C) During the year ended December 31, 2016, the Group invested ₩84,306 million in associates and joint ventures including ₩14,805 million in Samsung Biologics. During the year ended December 31, 2015, the Group invested ₩137,917 million in associates and joint ventures. Also, the Group invested ₩181,081 million in Samsung Heavy Industries which is not a related party of the Group in accordance with Korean IFRS 1024, the entity belongs to the same large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

(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 years ended December 31, 2016 and 2015, consists of as follows:

| <i>(In millions of Korean won)</i> | 2016 | | 2015 | |
|---|------|--------|------|--------|
| Salaries and other short-term employee benefits | ₩ | 16,822 | ₩ | 23,671 |
| Termination benefits | | 840 | | 560 |
| Other long-term benefits | | 8,671 | | 8,316 |

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34. Information about Non-Controlling Interests

(A) Changes in accumulated non-controlling interests

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Group for the years ended December 31, 2016 and 2015, is as follows:

| 2016 <i>(In millions of Korean won)</i> | Percentage of Non-Controlling Interests | Balance as at January 1 | Net Income | Dividends | Other | Balance as at December 31 |
|--|---|----------------------------|---------------|-----------|----------|------------------------------|
| Samsung Display and its subsidiaries | 15.2% | ₩ 5,642,413 | ₩ 253,296 | ₩(13,472) | ₩ 99,217 | ₩ 5,981,454 |

| 2015 <i>(In millions of Korean won)</i> | Percentage of Non-Controlling Interests | Balance as at January 1 | Net Income | Dividends | Other | Balance as at December 31 |
|--|---|----------------------------|---------------|-----------|-----------|------------------------------|
| Samsung Display and its subsidiaries | 15.2% | ₩ 5,360,192 | ₩ 314,078 | - | ₩(31,857) | ₩ 5,642,413 |

(B) The summarized financial information for each subsidiary with non-controlling interests that are material to the Group before intercompany eliminations for the years December 31, 2016 and 2015 is as follows:

(1) Summarized consolidated statements of financial position

| <i>(In millions of Korean won)</i> | Samsung Display and its subsidiaries | |
|------------------------------------|--------------------------------------|-------------------|
| | December 31, 2016 | December 31, 2015 |
| Current assets | ₩ 17,208,126 | ₩ 16,947,132 |
| Non-current assets | 30,421,181 | 25,161,235 |
| Current liabilities | 7,957,076 | 6,703,532 |
| Non-current liabilities | 3,191,759 | 1,260,822 |
| Equity attributable to: | 36,480,472 | 34,144,013 |
| Owners of the parent | 35,982,390 | 33,639,387 |
| Non-controlling interests | 498,082 | 504,626 |

(2) Summarized consolidated statements of comprehensive income

| <i>(In millions of Korean won)</i> | Samsung Display and its subsidiaries | |
|---|--------------------------------------|--------------|
| | 2016 | 2015 |
| Sales | ₩ 26,816,450 | ₩ 27,446,419 |
| Net income | 1,618,023 | 1,841,637 |
| Other comprehensive income(loss) | 721,849 | (233,527) |
| Total comprehensive income attributable to: | 2,339,872 | 1,608,110 |
| Owners of the parent | 2,343,120 | 1,565,566 |
| Non-controlling interests | (3,248) | 42,544 |

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(3) Summarized consolidated statements of cash flows

| <i>(In millions of Korean won)</i> | Samsung Display and its subsidiaries | |
|--|---|-------------|
| | 2016 | 2015 |
| Cash flows from operating activities | ₩ 6,800,635 | ₩ 7,458,783 |
| Cash flows from investing activities | (9,163,528) | (8,045,005) |
| Cash flows from financing activities | 2,563,830 | 653,266 |
| Effect of exchange rate changes on cash and cash equivalents | 10,061 | (2,563) |
| Increase in cash and cash equivalents | 210,998 | 64,481 |
| Cash and cash equivalents at beginning of period | 385,863 | 321,382 |
| Cash and cash equivalents at end of period | 596,861 | 385,863 |

35. Business Combination

Significant business combinations for the year ended December 31, 2016 are as follow:

(A) Acquisition of Joyent

Samsung Electronics America, the Group's subsidiary, acquired 100% of the equity shares of Joyent on June 24, 2016.

(1) Overview of the acquired company

| | |
|------------------------------|---------------------------------|
| Name of the acquired company | Joyent, Inc. and 2 subsidiaries |
| Headquarters location | San Francisco, CA, USA |
| Representative director | Scott Hammond |
| Industry | Cloud services |

(2) Purchase price allocation

| <i>(In millions of Korean Won)</i> | Amount |
|---|---------------|
| I. Consideration transferred | ₩ 185,343 |
| II. Identifiable assets and liabilities | |
| Cash and cash equivalents | 1,556 |
| Short-term financial instruments | 116 |
| Trade and other receivables | 3,646 |
| Property, plant and equipment | 5,625 |
| Intangible assets | 22,208 |
| Other assets | 24,582 |
| Trade and other payables | (10,979) |
| Total net identifiable assets | 46,754 |
| III. Goodwill (I – II) | ₩ 138,589 |

Had Joyent been consolidated from January 1, 2016, revenues would have increased by ₩9,721 million and net income would have decreased by ₩5,386 million on the interim consolidated statement of income. The revenue and net loss contributed by Joyent since acquisition amount to ₩14,142 million and ₩5,690 million, respectively.

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(B) Acquisition of Dacor

Samsung Electronics America, the Group's subsidiary, acquired 100% of the equity shares of Dacor on September 7, 2016.

(1) Overview of the acquired company

| | |
|------------------------------|---|
| Name of the acquired company | Dacor Holdings, Inc. and 4 subsidiaries |
| Headquarters location | City of Industry, CA, USA |
| Representative director | Charles Huebner |
| Industry | Manufacture and sale of home appliances |

(2) Purchase price allocation

| <i>(In millions of Korean Won)</i> | Amount |
|---|---------------|
| I. Consideration transferred | ₩ 176,800 |
| II. Identifiable assets and liabilities | |
| Cash and cash equivalents | 2,092 |
| Short-term financial instruments | 834 |
| Trade and other receivables | 5,786 |
| Inventory | 9,323 |
| Property, plant and equipment | 646 |
| Intangible assets | 67,313 |
| Other assets | 3,731 |
| Trade and other payables | (8,936) |
| Other liabilities | (4,549) |
| Total net identifiable assets | 76,240 |
| III. Goodwill (I – II) | ₩ 100,560 |

Had Dacor been consolidated from January 1, 2016, revenues would have increased by ₩38,979 million and net income would have decreased by ₩35,193 million on the interim consolidated statement of income. The revenue and net loss contributed by Dacor since acquisition amount to ₩16,239 million and ₩1,682 million, respectively.

(C) Acquisition of Viv Labs

Samsung Research America, the Group's subsidiary, acquired 100% of the equity shares of Viv Labs on October 7, 2016.

(1) Overview of the acquired company

| | |
|------------------------------|---------------------------|
| Name of the acquired company | Viv Labs, Inc. |
| Headquarters location | San Jose, CA, USA |
| Representative director | Dag Kittlaus |
| Industry | Research of AI technology |

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(2) Purchase price allocation

| <i>(In millions of Korean Won)</i> | Amount |
|---|---------------|
| I. Consideration transferred | ₩ 238,930 |
| II. Identifiable assets and liabilities | |
| Cash and cash equivalents | 10,325 |
| Short-term financial instruments | 67 |
| Trade and other receivables | 284 |
| Inventory | - |
| Property, plant and equipment | 30 |
| Intangible assets | 33,038 |
| Other assets | - |
| Trade and other payables | (1,874) |
| Other liabilities | (5,543) |
| Total net identifiable assets | 36,327 |
| III. Goodwill (I – II) | ₩ 202,603 |

Had Viv Labs been consolidated from January 1, 2016, net income would have decreased by ₩6,770 million on the interim consolidated statement of income. Net loss contributed by Viv Labs since acquisition amount to ₩3,424 million.

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

(A) Summary

(1) Sale of Samsung Fine Chemicals

During the year ended December 31, 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.

(2) Sale of Samsung Biologics

During the year ended December 31, 2016, the Group entered into an agreement with Samsung Biologics to sell all of its shares. The transaction was completed in November 2016.

(3) Sale of printing solutions business segment

During the nine months ended December 31, 2016, the management of the Group decided to sell printing solutions business segment to HP Inc. The contract was entered into on September 12, 2016, and the transaction is expected to be completed within 1 year through the due diligence.

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

| <i>(In millions of Korean Won)</i> | 2016 | | 2015 | |
|------------------------------------|-------------|----------------|-------------|---------------|
| Assets held-for-sale | | | | |
| Trade receivables | ₩ | 182,738 | ₩ | - |
| Inventories | | 270,642 | | - |
| Other current assets | | 115,037 | | - |
| Property, plant and equipment | | 84,869 | | - |
| Intangible assets | | 124,571 | | - |
| Investment | | - | | 77,073 |
| Other non-current assets | | 57,949 | | - |
| Total | | 835,806 | | 77,073 |
| Liabilities held-for-sale | | | | |
| Current liabilities | | 272,726 | | - |
| Non-current liabilities | | 83,662 | | - |
| Total | ₩ | 356,388 | ₩ | - |

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

| <i>(In millions of Korean Won)</i> | 2016 | | 2015 | |
|--|-------------|-----------------|-------------|---------------|
| Gain on valuation of available-for-sale securities | ₩ | - | ₩ | 23,797 |
| Foreign exchange translation adjustment | | (28,810) | | - |
| Total | ₩ | (28,810) | ₩ | 23,797 |

37. Events after the Reporting Period

On January 24, 2017, 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 1.28 million (common stock 1.02 million, preferred stock 0.26 million). All repurchased shares will be retired after the buyback is completed. The period of purchase will end on April 24, 2017.