

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

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of Samsung Electronics Co., Ltd. and its subsidiaries (collectively referred to as the “Company”), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in equity and cash flow for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of certain subsidiaries, whose financial statements represents 6.8% and 7.2% of the consolidated total assets as of December 31, 2013 and 2012, respectively, and 25.6% and 22.1% of the consolidated revenues for the year then ended, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for those subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Samsung Electronics Co., Ltd. and its subsidiaries as of December 31, 2013 and 2012, and their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea.

Seoul, Korea  
February 11, 2014

This report is effective as of February 11, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**Samsung Electronics Co., Ltd. and its subsidiaries**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*(In millions of Korean won, in thousands of US dollars (Note 2.28))*

|                                     | Notes    | December 31,<br>2013<br>KRW | December 31,<br>2012<br>KRW | December 31,<br>2013<br>USD | December 31,<br>2012<br>USD |
|-------------------------------------|----------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>Assets</b>                       |          |                             |                             |                             |                             |
| <b>Current assets</b>               |          |                             |                             |                             |                             |
| Cash and cash equivalents           | 4, 6, 7  | 16,284,780                  | 18,791,460                  | 15,431,422                  | 17,806,747                  |
| Short-term financial instruments    | 5, 6, 7  | 36,722,702                  | 17,397,937                  | 34,798,353                  | 16,486,248                  |
| Available-for-sale financial assets | 6, 9     | 1,488,527                   | 1,258,874                   | 1,410,525                   | 1,192,906                   |
| Trade and other receivables         | 6, 7, 10 | 27,875,934                  | 26,674,596                  | 26,415,175                  | 25,276,790                  |
| Advances                            |          | 1,928,188                   | 1,674,428                   | 1,827,147                   | 1,586,684                   |
| Prepaid expenses                    |          | 2,472,950                   | 2,262,234                   | 2,343,362                   | 2,143,688                   |
| Inventories                         | 11       | 19,134,868                  | 17,747,413                  | 18,132,160                  | 16,817,410                  |
| Other current assets                |          | 2,135,589                   | 1,462,075                   | 2,023,680                   | 1,385,459                   |
| Assets held for sale                | 12, 37   | 2,716,733                   | -                           | 2,574,370                   | -                           |
| <b>Total current assets</b>         |          | 110,760,271                 | 87,269,017                  | 104,956,194                 | 82,695,932                  |
| <b>Non-current assets</b>           |          |                             |                             |                             |                             |
| Available-for-sale financial assets | 6,9      | 6,238,380                   | 5,229,175                   | 5,911,475                   | 4,955,155                   |
| Associates and joint ventures       | 12       | 6,422,292                   | 8,785,489                   | 6,085,750                   | 8,325,110                   |
| Property, plant and equipment       | 13       | 75,496,388                  | 68,484,743                  | 71,540,214                  | 64,895,995                  |
| Intangible assets                   | 14       | 3,980,600                   | 3,729,705                   | 3,772,008                   | 3,534,260                   |
| Long-term prepaid expenses          |          | 3,465,783                   | 3,515,479                   | 3,284,168                   | 3,331,260                   |
| Deferred income tax assets          | 29       | 4,621,780                   | 2,516,080                   | 4,379,589                   | 2,384,232                   |
| Other non-current assets            |          | 3,089,524                   | 1,541,882                   | 2,927,627                   | 1,461,085                   |
| <b>Total assets</b>                 |          | 214,075,018                 | 181,071,570                 | 202,857,025                 | 171,583,029                 |

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

**Samsung Electronics Co., Ltd. and its subsidiaries**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*(In millions of Korean won, in thousands of US dollars (Note 2.28))*

|  | Notes     | December 31,<br>2013<br>KRW | December 31,<br>2012<br>KRW | December 31,<br>2013<br>USD | December 31,<br>2012<br>USD |
|--|-----------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>Liabilities and Equity</b>                          |           |                             |                             |                             |                             |
| <b>Current liabilities</b>                             |           |                             |                             |                             |                             |
| Trade and other payables                               | 6         | 17,633,705                  | 16,889,350                  | 16,709,661                  | 16,004,312                  |
| Short-term borrowings                                  | 6, 15     | 6,438,517                   | 8,443,752                   | 6,101,125                   | 8,001,281                   |
| Advances received                                      |           | 1,706,313                   | 1,517,672                   | 1,616,899                   | 1,438,143                   |
| Withholdings   |           | 1,176,046                   | 966,374                     | 1,114,419                   | 915,734                     |
| Accrued expenses                                       | 6         | 11,344,530                  | 9,495,156                   | 10,750,052                  | 8,997,589                   |
| Income tax payable                                     |           | 3,386,018                   | 3,222,934                   | 3,208,583                   | 3,054,045                   |
| Current portion of long-term borrowings and debentures | 6, 15, 16 | 2,425,831                   | 999,010                     | 2,298,712                   | 946,660                     |
| Provisions   | 18        | 6,736,476                   | 5,054,853                   | 6,383,470                   | 4,789,968                   |
| Other current liabilities                              |           | 467,973                     | 343,951                     | 443,450                     | 325,927                     |
| <b>Total current liabilities</b>                       |           | <b>51,315,409</b>           | <b>46,933,052</b>           | <b>48,626,371</b>           | <b>44,473,659</b>           |
| <b>Non-current liabilities</b>                         |           |                             |                             |                             |                             |
| Long-term trade and other payables                     | 6         | 1,053,756                   | 1,165,881                   | 998,537                     | 1,104,786                   |
| Debentures   | 6, 16     | 1,311,068                   | 1,829,374                   | 1,242,365                   | 1,733,511                   |
| Long-term borrowings                                   | 6, 15     | 985,117                     | 3,623,028                   | 933,495                     | 3,433,174                   |
| Net defined benefit liabilities                        | 17        | 1,854,902                   | 1,729,939                   | 1,757,701                   | 1,639,286                   |
| Deferred income tax liabilities                        | 29        | 6,012,371                   | 3,429,467                   | 5,697,310                   | 3,249,756                   |
| Provisions   | 18        | 460,924                     | 408,529                     | 436,771                     | 387,121                     |
| Other non-current liabilities                          |           | 1,065,461                   | 472,094                     | 1,009,628                   | 447,355                     |
| <b>Total liabilities</b>                               |           | <b>64,059,008</b>           | <b>59,591,364</b>           | <b>60,702,178</b>           | <b>56,468,648</b>           |

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

**Samsung Electronics Co., Ltd. and its subsidiaries**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*(In millions of Korean won, in thousands of US dollars (Note 2.28))*

|  | Notes | December 31,<br>2013<br>KRW | December 31,<br>2012<br>KRW | December 31,<br>2013<br>USD | December 31,<br>2012<br>USD |
|--|-------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>Equity attributable to owners of the parent</b> |       |                             |                             |                             |                             |
| Preferred stock                                    | 20    | 119,467                     | 119,467                     | 113,207                     | 113,207                     |
| Common stock                                       | 20    | 778,047                     | 778,047                     | 737,276                     | 737,276                     |
| Share premium                                      |       | 4,403,893                   | 4,403,893                   | 4,173,119                   | 4,173,119                   |
| Retained earnings                                  | 21    | 148,600,282                 | 119,985,689                 | 140,813,307                 | 113,698,180                 |
| Other components of equity                         | 23    | (9,459,073)                 | (8,193,044)                 | (8,963,398)                 | (7,763,711)                 |
| <b>Non-controlling interests</b>                   |       | 5,573,394                   | 4,386,154                   | 5,281,336                   | 4,156,310                   |
| <b>Total equity</b>                                |       | 150,016,010                 | 121,480,206                 | 142,154,847                 | 115,114,381                 |
| <b>Total liabilities and equity</b>                |       | 214,075,018                 | 181,071,570                 | 202,857,025                 | 171,583,029                 |

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

**Samsung Electronics Co., Ltd. and its subsidiaries**  
**CONSOLIDATED STATEMENTS OF INCOME**

*(In millions of Korean won, in thousands of US dollars (Note 2.28))*

|   | Notes  | For the year ended December 31, |             |             |             |
|---|--------|---------------------------------|-------------|-------------|-------------|
|   |        | 2013<br>KRW                     | 2012<br>KRW | 2013<br>USD | 2012<br>USD |
| <b>Revenue</b>  |        | 228,692,667                     | 201,103,613 | 216,708,677 | 190,565,349 |
| <b>Cost of sales</b>  | 25     | 137,696,309                     | 126,651,931 | 130,480,725 | 120,015,096 |
| <b>Gross profit</b>   |        | 90,996,358                      | 74,451,682  | 86,227,952  | 70,550,253  |
| Selling and administrative expenses   | 25, 26 | 54,211,345                      | 45,402,344  | 51,370,553  | 43,023,163  |
| <b>Operating profit</b>   |        | 36,785,013                      | 29,049,338  | 34,857,399  | 27,527,090  |
| Other non-operating income  | 27     | 2,429,551                       | 1,552,989   | 2,302,237   | 1,471,609   |
| Other non-operating expense   | 27     | 1,614,048                       | 1,576,025   | 1,529,468   | 1,493,438   |
| Share of profit of<br>associates and joint ventures   | 12     | 504,063                         | 986,611     | 477,649     | 934,910     |
| Finance income  | 28     | 8,014,672                       | 7,836,554   | 7,594,686   | 7,425,902   |
| Finance costs   | 28     | 7,754,972                       | 7,934,450   | 7,348,595   | 7,518,667   |
| <b>Profit before income tax</b>   |        | 38,364,279                      | 29,915,017  | 36,353,908  | 28,347,406  |
| Income tax expense  | 29     | 7,889,515                       | 6,069,732   | 7,476,087   | 5,751,665   |
| <b>Profit for the year</b>  |        | 30,474,764                      | 23,845,285  | 28,877,821  | 22,595,741  |
| Profit attributable to owners of the<br>parent  |        | 29,821,215                      | 23,185,375  | 28,258,519  | 21,970,411  |
| Profit attributable to non-controlling<br>interests   |        | 653,549                         | 659,910     | 619,302     | 625,330     |
| Earnings per share for profit<br>attributable to owners of the parent<br>(in Korean Won, in 1/1000 US<br>dollars) | 30     |                                 |             |             |             |
| - Basic   |        | 197,841                         | 154,020     | 187,474     | 145,949     |
| - Diluted   |        | 197,800                         | 153,950     | 187,435     | 145,883     |

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

**Samsung Electronics Co., Ltd. and its subsidiaries**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(In millions of Korean won, in thousands of US dollars (Note 2.28))*

|   | Notes  | <b>For the year ended December 31,</b> |             |             |             |
|---|--------|--|-------------|-------------|-------------|
|   |        | <b>2013</b>                            | <b>2012</b> | <b>2013</b> | <b>2012</b> |
|   |        | KRW                                    | KRW         | USD         | USD         |
| <b>Profit for the year</b>  |        | 30,474,764                             | 23,845,285  | 28,877,821  | 22,595,741  |
| <b>Other comprehensive income</b>   |        |  |             |             |             |
| <b>Items not to be reclassified subsequently to profit or loss :</b>                    |        |  |             |             |             |
| Remeasurement of net defined benefit liabilities, net of tax                            | 17, 23 | (213,113)                              | (504,120)   | (201,946)   | (477,703)   |
| <b>Items to be reclassified subsequently to profit or loss :</b>                        |        |  |             |             |             |
| Changes in value of available-for-sale financial assets, net of tax                     | 23     | 186,480                                | 962,184     | 176,708     | 911,763     |
| Share of other comprehensive income (loss) of associates and joint ventures, net of tax | 23     | 20,756                                 | (350,491)   | 19,668      | (332,125)   |
| Foreign currency translation, net of tax  | 23     | (1,000,961)                            | (1,824,653) | (948,508)   | (1,729,037) |
| <b>Other comprehensive loss for the year, net of tax</b>                                |        | (1,006,838)                            | (1,717,080) | (954,078)   | (1,627,102) |
| <b>Total comprehensive income for the year</b>  |        | 29,467,926                             | 22,128,205  | 27,923,743  | 20,968,639  |
| <b>Comprehensive income attributable to :</b>   |        |  |             |             |             |
| Owners of the parent  |        | 28,837,590                             | 21,499,343  | 27,326,438  | 20,372,732  |
| Non-controlling interests   |        | 630,336                                | 628,862     | 597,305     | 595,907     |

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

Samsung Electronics Co., Ltd. and its subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In millions of Korean won)

| 2012 KRW   | Notes | Preferred stock | Common stock | Share premium | Retained earnings | Other components of equity | Equity attributable to owners of the parent | Non-controlling interests | Total       |
|--|-------|-----------------|--------------|---------------|-------------------|----------------------------|---|---------------------------|-------------|
| <b>Balance at January 1, 2012</b>  |       | 119,467         | 778,047      | 4,403,893     | 97,622,872        | (5,833,896)                | 97,090,383                                  | 4,223,247                 | 101,313,630 |
| Profit for the year  |       | -               | -            | -             | 23,185,375        | -                          | 23,185,375                                  | 659,910                   | 23,845,285  |
| Changes in value of available-for-sale financial assets, net of tax            | 9, 23 | -               | -            | -             | -                 | 960,688                    | 960,688                                     | 1,496                     | 962,184     |
| Share of other comprehensive loss of associates and joint ventures, net of tax | 12    | -               | -            | -             | -                 | (350,491)                  | (350,491)                                   | -                         | (350,491)   |
| Foreign currency translation, net of tax                                       |       | -               | -            | -             | -                 | (1,789,877)                | (1,789,877)                                 | (34,776)                  | (1,824,653) |
| Remeasurement of net defined benefit liabilities, net of tax                   | 17    | -               | -            | -             | -                 | (506,351)                  | (506,351)                                   | 2,231                     | (504,120)   |
| <b>Total comprehensive income (loss)</b>                                       |       | -               | -            | -             | 23,185,375        | (1,686,031)                | 21,499,344                                  | 628,861                   | 22,128,205  |
| Dividends  | 22    | -               | -            | -             | (827,501)         | -                          | (827,501)                                   | (373,632)                 | (1,201,133) |
| Capital transaction under common control                                       |       | -               | -            | -             | -                 | (1,089,835)                | (1,089,835)                                 | (104,395)                 | (1,194,230) |
| Changes in consolidated entities   |       | -               | -            | -             | -                 | -                          | -   | 12,844                    | 12,844      |
| Disposal of treasury stock   | 23    | -               | -            | -             | -                 | 455,377                    | 455,377                                     | -                         | 455,377     |
| Stock option activities  | 24    | -               | -            | -             | -                 | (33,071)                   | (33,071)                                    | -                         | (33,071)    |
| Others   |       | -               | -            | -             | 4,943             | (5,588)                    | (645)                                       | (771)                     | (1,416)     |
| <b>Total transactions with owners</b>  |       | -               | -            | -             | (822,558)         | (673,117)                  | (1,495,675)                                 | (465,954)                 | (1,961,629) |
| <b>Balance at December 31, 2012</b>  |       | 119,467         | 778,047      | 4,403,893     | 119,985,689       | (8,193,044)                | 117,094,052                                 | 4,386,154                 | 121,480,206 |

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



Samsung Electronics Co., Ltd. and its subsidiaries

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(In thousands of US dollars (Note 2.28))

| 2012 USD   | Notes | Preferred stock | Common stock | Share premium | Retained earnings | Other components of equity | Equity attributable to owners of the parent | Non-controlling interests | Total       |
|--|-------|-----------------|--------------|---------------|-------------------|----------------------------|---|---------------------------|-------------|
| <b>Balance at January 1, 2012</b>  |       | 113,207         | 737,276      | 4,173,119     | 92,507,223        | (5,528,187)                | 92,002,638                                  | 4,001,940                 | 96,004,578  |
| Profit for the year  |       | -               | -            | -             | 21,970,411        | -                          | 21,970,411                                  | 625,330                   | 22,595,741  |
| Changes in value of available-for-sale financial assets, net of tax            | 9, 23 | -               | -            | -             | -                 | 910,345                    | 910,345                                     | 1,418                     | 911,763     |
| Share of other comprehensive loss of associates and joint ventures, net of tax | 12    | -               | -            | -             | -                 | (332,125)                  | (332,125)                                   | -                         | (332,125)   |
| Foreign currency translation, net of tax                                       |       | -               | -            | -             | -                 | (1,696,083)                | (1,696,083)                                 | (32,954)                  | (1,729,037) |
| Remeasurement of net defined benefit liabilities, net of tax                   | 17    | -               | -            | -             | -                 | (479,816)                  | (479,816)                                   | 2,113                     | (477,703)   |
| <b>Total comprehensive income (loss)</b>                                       |       | -               | -            | -             | 21,970,411        | (1,597,679)                | 20,372,732                                  | 595,907                   | 20,968,639  |
| Dividends  | 22    | -               | -            | -             | (784,138)         | -                          | (784,138)                                   | (354,053)                 | (1,138,191) |
| Capital transaction under common control                                       |       | -               | -            | -             | -                 | (1,032,725)                | (1,032,725)                                 | (98,924)                  | (1,131,649) |
| Changes in consolidated entities   |       | -               | -            | -             | -                 | -                          | -   | 12,171                    | 12,171      |
| Disposal of treasury stock   | 23    | -               | -            | -             | -                 | 431,514                    | 431,514                                     | -                         | 431,514     |
| Stock option activities  | 24    | -               | -            | -             | -                 | (31,338)                   | (31,338)                                    | -                         | (31,338)    |
| Others   |       | -               | -            | -             | 4,684             | (5,296)                    | (612)                                       | (731)                     | (1,343)     |
| <b>Total transactions with owners</b>  |       | -               | -            | -             | (779,454)         | (637,845)                  | (1,417,299)                                 | (441,537)                 | (1,858,836) |
| <b>Balance at December 31, 2012</b>  |       | 113,207         | 737,276      | 4,173,119     | 113,698,180       | (7,763,711)                | 110,958,071                                 | 4,156,310                 | 115,114,381 |

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

Samsung Electronics Co., Ltd. and its subsidiaries

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(In millions of Korean won)

| 2013 KRW  | Notes | Preferred stock | Common stock | Share premium | Retained earnings | Other components of equity | Equity attributable to owners of the parent | Non-controlling interests | Total       |
|---|-------|-----------------|--------------|---------------|-------------------|----------------------------|---|---------------------------|-------------|
| <b>Balance at January 1, 2013</b>   |       | 119,467         | 778,047      | 4,403,893     | 119,985,689       | (8,193,044)                | 117,094,052                                 | 4,386,154                 | 121,480,206 |
| Profit for the year   |       | -               | -            | -             | 29,821,215        | -                          | 29,821,215                                  | 653,549                   | 30,474,764  |
| Changes in value of available-for-sale financial assets, net of tax                     | 9, 23 | -               | -            | -             | -                 | 187,477                    | 187,477                                     | (997)                     | 186,480     |
| Share of other comprehensive income (loss) of associates and joint ventures, net of tax | 12    | -               | -            | -             | -                 | 20,949                     | 20,949                                      | (193)                     | 20,756      |
| Foreign currency translation, net of tax  |       | -               | -            | -             | -                 | (986,691)                  | (986,691)                                   | (14,270)                  | (1,000,961) |
| Remeasurement of net defined benefit liabilities, net of tax                            | 17    | -               | -            | -             | -                 | (205,360)                  | (205,360)                                   | (7,753)                   | (213,113)   |
| <b>Total comprehensive income (loss)</b>  |       | -               | -            | -             | 29,821,215        | (983,625)                  | 28,837,590                                  | 630,336                   | 29,467,926  |
| Dividends   | 22    | -               | -            | -             | (1,206,622)       | -                          | (1,206,622)                                 | (42,155)                  | (1,248,777) |
| Capital transaction under common control  |       | -               | -            | -             | -                 | (312,959)                  | (312,959)                                   | 600,042                   | 287,083     |
| Changes in consolidated entities  |       | -               | -            | -             | -                 | -                          | -   | (918)                     | (918)       |
| Disposal of treasury stock  | 23    | -               | -            | -             | -                 | 41,817                     | 41,817                                      | -                         | 41,817      |
| Stock option activities   | 24    | -               | -            | -             | -                 | (11,999)                   | (11,999)                                    | -                         | (11,999)    |
| Others  |       | -               | -            | -             | -                 | 737                        | 737   | (65)                      | 672         |
| <b>Total transactions with owners</b>   |       | -               | -            | -             | (1,206,622)       | (282,404)                  | (1,489,026)                                 | 556,904                   | (932,122)   |
| <b>Balance at December 31, 2013</b>   |       | 119,467         | 778,047      | 4,403,893     | 148,600,282       | (9,459,073)                | 144,442,616                                 | 5,573,394                 | 150,016,010 |

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

Samsung Electronics Co., Ltd. and its subsidiaries

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(In thousands of US dollars (Note 2.28))

| 2013 USD  | Notes | Preferred stock | Common stock | Share premium | Retained earnings | Other components of equity | Equity attributable to owners of the parent | Non-controlling interests | Total       |
|---|-------|-----------------|--------------|---------------|-------------------|----------------------------|---|---------------------------|-------------|
| <b>Balance at January 1, 2013</b>   |       | 113,207         | 737,276      | 4,173,119     | 113,698,180       | (7,763,711)                | 110,958,071                                 | 4,156,310                 | 115,114,381 |
| Profit for the year   |       | -               | -            | -             | 28,258,519        | -                          | 28,258,519                                  | 619,302                   | 28,877,821  |
| Changes in value of available-for-sale financial assets, net of tax                     | 9, 23 | -               | -            | -             | -                 | 177,653                    | 177,653                                     | (945)                     | 176,708     |
| Share of other comprehensive income (loss) of associates and joint ventures, net of tax | 12    | -               | -            | -             | -                 | 19,851                     | 19,851                                      | (183)                     | 19,668      |
| Foreign currency translation, net of tax  |       | -               | -            | -             | -                 | (934,986)                  | (934,986)                                   | (13,522)                  | (948,508)   |
| Remeasurement of net defined benefit liabilities, net of tax                            | 17    | -               | -            | -             | -                 | (194,599)                  | (194,599)                                   | (7,347)                   | (201,946)   |
| <b>Total comprehensive income (loss)</b>  |       | -               | -            | -             | 28,258,519        | (932,081)                  | 27,326,438                                  | 597,305                   | 27,923,743  |
| Dividends   | 22    | -               | -            | -             | (1,143,392)       | -                          | (1,143,392)                                 | (39,946)                  | (1,183,338) |
| Capital transaction under common control  |       | -               | -            | -             | -                 | (296,559)                  | (296,559)                                   | 568,599                   | 272,040     |
| Changes in consolidated entities  |       | -               | -            | -             | -                 | -                          | -   | (870)                     | (870)       |
| Disposal of treasury stock  | 23    | -               | -            | -             | -                 | 39,626                     | 39,626                                      | -                         | 39,626      |
| Stock option activities   | 24    | -               | -            | -             | -                 | (11,370)                   | (11,370)                                    | -                         | (11,370)    |
| Others  |       | -               | -            | -             | -                 | 697                        | 697   | (62)                      | 635         |
| <b>Total transactions with owners</b>   |       | -               | -            | -             | (1,143,392)       | (267,606)                  | (1,410,998)                                 | 527,721                   | (883,277)   |
| <b>Balance at December 31, 2013</b>   |       | 113,207         | 737,276      | 4,173,119     | 140,813,307       | (8,963,398)                | 136,873,511                                 | 5,281,336                 | 142,154,847 |

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

**Samsung Electronics Co., Ltd. and its subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(In millions of Korean won, in thousands of US dollars (Note 2.28))*

|   | Notes | <b>For the year ended December 31,</b> |                     |                     |                     |
|---|-------|--|---------------------|---------------------|---------------------|
|   |       | <b>2013</b><br>KRW                     | <b>2012</b><br>KRW  | <b>2013</b><br>USD  | <b>2012</b><br>USD  |
| <b>Cash flows from operating activities</b>                               |       |  |                     |                     |                     |
| Profit for the year   |       | 30,474,764                             | 23,845,285          | 28,877,821          | 22,595,741          |
| Adjustments   | 31    | 23,804,832                             | 22,759,559          | 22,557,407          | 21,566,909          |
| Changes in operating assets and liabilities                               | 31    | (1,313,245)                            | (5,777,949)         | (1,244,428)         | (5,475,173)         |
| Cash flows from operating activities                                      |       | 52,966,351                             | 40,826,895          | 50,190,800          | 38,687,477          |
| Interest received   |       | 1,034,074                              | 789,397             | 979,886             | 748,031             |
| Interest paid   |       | (434,857)                              | (576,379)           | (412,070)           | (546,175)           |
| Dividend received   |       | 592,217                                | 1,112,940           | 561,184             | 1,054,620           |
| Income tax paid   |       | (7,450,345)                            | (4,180,044)         | (7,059,931)         | (3,961,001)         |
| <b>Net cash generated from operating activities</b>                       |       | <b>46,707,440</b>                      | <b>37,972,809</b>   | <b>44,259,869</b>   | <b>35,982,952</b>   |
| <b>Cash flows from investing activities</b>                               |       |  |                     |                     |                     |
| Net increase in short-term financial instruments                          |       | (19,391,643)                           | (5,965,611)         | (18,375,479)        | (5,653,000)         |
| Net decrease (increase) in short-term available-for-sale financial assets |       | 33,663                                 | (589,072)           | 31,899              | (558,203)           |
| Proceeds from disposal of long-term available-for-sale financial assets   |       | 1,691,463                              | 106,208             | 1,602,827           | 100,642             |
| Acquisition of long-term available-for-sale financial assets              |       | (1,531,356)                            | (870,249)           | (1,451,110)         | (824,646)           |
| Proceeds from disposal of associates and joint ventures                   |       | 240                                    | 41,091              | 227                 | 38,938              |
| Acquisition of associates and joint ventures                              |       | (181,307)                              | (279,022)           | (171,806)           | (264,401)           |
| Disposal of property and equipment  |       | 377,445                                | 644,062             | 357,666             | 610,312             |
| Purchases of property and equipment                                       |       | (23,157,587)                           | (22,965,271)        | (21,944,079)        | (21,761,841)        |
| Disposal of intangible assets   |       | 4,562                                  | 61,497              | 4,323               | 58,274              |
| Purchases of intangible assets  |       | (934,743)                              | (650,884)           | (885,760)           | (616,776)           |
| Cash outflows from business combination                                   |       | (167,155)                              | (464,279)           | (158,396)           | (439,950)           |
| Others  |       | (1,490,601)                            | (390,024)           | (1,412,491)         | (369,586)           |
| <b>Net cash used in investing activities</b>                              |       | <b>(44,747,019)</b>                    | <b>(31,321,554)</b> | <b>(42,402,179)</b> | <b>(29,680,237)</b> |

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

**Samsung Electronics Co., Ltd. and its subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(In millions of Korean won, in thousands of US dollars (Note 2.28))*

| Notes  | For the year ended December 31, |                    |                    |                    |
|--|---------------------------------|--------------------|--------------------|--------------------|
|  | 2013                            | 2012               | 2013               | 2012               |
|  | KRW                             | KRW                | USD                | USD                |
| <b>Cash flows from financing activities</b>                  |                                 |                    |                    |                    |
| Net repayment of short-term borrowings                       | (1,861,536)                     | (800,579)          | (1,763,987)        | (758,627)          |
| Disposal of treasury stock                                   | 34,390                          | 88,473             | 32,588             | 83,837             |
| Proceeds from long-term borrowings and debentures            | 26,672                          | 1,862,256          | 25,274             | 1,764,670          |
| Repayment of long-term borrowings and debentures             | (1,368,436)                     | (522,899)          | (1,296,727)        | (495,498)          |
| Payment of dividends   | (1,249,672)                     | (1,265,137)        | (1,184,186)        | (1,198,841)        |
| Net increase (decrease) in non-controlling interests         | 281,551                         | (1,200,134)        | 266,797            | (1,137,244)        |
| Others   | -                               | (26,488)           | -                  | (25,101)           |
| <b>Net cash used in financing activities</b>                 | <b>(4,137,031)</b>              | <b>(1,864,508)</b> | <b>(3,920,241)</b> | <b>(1,766,804)</b> |
| Effect of exchange rate changes on cash and cash equivalents | (330,070)                       | (687,048)          | (312,774)          | (651,045)          |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | <b>(2,506,680)</b>              | <b>4,099,699</b>   | <b>(2,375,325)</b> | <b>3,884,866</b>   |
| <b>Cash and cash equivalents</b>                             |                                 |                    |                    |                    |
| <b>Beginning of the year</b>                                 | 18,791,460                      | 14,691,761         | 17,806,747         | 13,921,881         |
| <b>End of the year</b>                                       | 16,284,780                      | 18,791,460         | 15,431,422         | 17,806,747         |

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

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. General Information

##### 1.1 Company Overview

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

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

These consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards (“K-IFRS”) 1110, *Consolidated Financial Statements*. SEC, as the controlling Company, consolidates its 153 subsidiaries including Samsung Display and Samsung Electronics America. The Company also applies the equity method of accounting to its 36 affiliates, including Samsung SDI.

##### 1.2 Consolidated Subsidiaries

(A) The consolidated subsidiaries as of December 31, 2013 are as follows:

| Area     | Subsidiaries                             | Industry  | Percentage of ownership <sup>1</sup> |
|----------|--|---|--------------------------------------|
|          | World Cyber Games                        | Cyber game match hosting                        | 99.9                                 |
|          | High Pioneer Private Investment Trust #1 | Technology business venture capital investments | 100.0                                |
|          | Samsung Display (SDC)                    | Manufacture and sale of display panels          | 84.8                                 |
|          | SU Materials                             | Manufacture of LCD components                   | 50.0                                 |
|          | STECO                                    | Manufacture of semiconductor components         | 51.0                                 |
|          | SEMES                                    | Manufacture of semiconductor/FPD                | 91.3                                 |
|          | Samsung Electronics Service              | Repair services for electronic devices          | 99.3                                 |
|          | Samsung Electronics Sales                | Sale of electronic devices                      | 100.0                                |
| Domestic | Samsung Electronics Logitech             | General logistics agency                        | 100.0                                |
|          | Samsung Electronics Football Club        | Sponsoring of sports team and games             | 100.0                                |
|          | Samsung Medison                          | Medical equipment                               | 68.5                                 |
|          | Ray                                      | Dental CT                                       | 68.1                                 |
|          | Samsung Venture Capital Union #6         | Technology business venture capital investments | 99.0                                 |
|          | Samsung Venture Capital Union #14        | Technology business venture capital investments | 99.0                                 |
|          | Samsung Venture Capital Union #20        | Technology business venture capital investments | 99.0                                 |
|          | Samsung Venture Capital Union #21        | Technology business venture capital investments | 99.0                                 |
|          | Samsung Venture Capital Union #22        | Technology business venture capital investments | 99.0                                 |
|          | Samsung Venture Capital Union #23        | Technology business venture capital investments | 99.0                                 |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| Area  | Subsidiaries   | Industry                                   | Percentage of ownership <sup>1</sup> |
|---|--|--|--------------------------------------|
| America                                     | Samsung Electronics America (SEA)                    | Sale of electronic devices                 | 100.0                                |
|   | NexusDX (Nexus)                                      | Medical equipment                          | 100.0                                |
|   | Samsung Receivables (SRC)                            | Credit management                          | 100.0                                |
|   | NeuroLogica  | Medical equipment                          | 100.0                                |
|   | Samsung Semiconductor (SSI)                          | Sale of semiconductor/LCD                  | 100.0                                |
|   | Samsung Electronics Canada (SECA)                    | Sale of electronic devices                 | 100.0                                |
|   | Samsung Information Systems America (SISA)           | R&D  | 100.0                                |
|   | Grandis  | R&D  | 100.0                                |
|   | Samsung Mexicana (SAMEX)                             | Manufacture of electronic devices          | 100.0                                |
|   | Samsung International (SII)                          | Manufacture of CTV/monitors                | 100.0                                |
|   | Samsung Telecommunications America (STA)             | Sale of communication equipment            | 100.0                                |
|   | Samsung Austin Semiconductor (SAS)                   | Manufacture of semiconductor               | 100.0                                |
|   | Samsung Electronics Mexico (SEM)                     | Sale of electronic devices                 | 99.9                                 |
|   | SEMES America (SEMESA)                               | Semiconductor equipment                    | 100.0                                |
|   | Samsung Electronics Digital Appliance Mexico (SEDAM) | Manufacture of electronic devices          | 99.9                                 |
|   | Samsung Electronics Latinoamerica Miami (SEMI)       | Sale of electronic devices                 | 100.0                                |
|   | Nvelo  | Software                                   | 100.0                                |
|   | Samsung Electronics Latinoamerica (SELA)             | Sale of electronic devices                 | 100.0                                |
|   | Samsung Electronics Venezuela (SEVEN)                | Marketing and services                     | 100.0                                |
|   | 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                                |
|   | Europe   | Samsung Electronics (UK) (SEUK)            | Sale of electronic devices           |
| 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 Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| Area                      | Subsidiaries                                    | Industry                       | Percentage of ownership <sup>1</sup> |
|---------------------------|---|--------------------------------|--------------------------------------|
|                           | 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 CTV/monitors    | 100.0                                |
|                           | Samsung Electronics Europe Holding (SEEH)       | Holding Company                | 100.0                                |
|                           | Samsung Electronics Poland Manufacturing (SEPM) | Manufacture of home appliances | 100.0                                |
|                           | Samsung Electronics Greece (SEGR)               | Sale of electronic devices     | 100.0                                |
|                           | Samsung Nanoradio Design Center (SNDC)          | R&D                            | 100.0                                |
|                           | Nanoradio Hellas                                | R&D                            | 100.0                                |
|                           | SonoAce Deutschland (SMDE)                      | Medical equipment              | 100.0                                |
|                           | Samsung Medison Europe (SMNL)                   | Medical equipment              | 100.0                                |
|                           | Nanogen Recognomics (Nanogen)                   | Medical equipment              | 60.0                                 |
|                           | Samsung Electronics Rus (SER)                   | Marketing                      | 100.0                                |
|                           | Samsung Electronics Rus Company (SERC)          | Sale of electronic devices     | 100.0                                |
|                           | Samsung Electronics Ukraine (SEU)               | Marketing                      | 100.0                                |
|                           | Samsung Electronics Baltics (SEB)               | Sale of electronic devices     | 100.0                                |
| Europe<br>(Cont.)         | Samsung Electronics Ukraine Company (SEUC)      | Sale of electronic devices     | 100.0                                |
|                           | Samsung R&D Institute Rus (SRR)                 | R&D                            | 100.0                                |
|                           | Samsung Electronics Kazakhstan (SEK)            | Marketing                      | 100.0                                |
|                           | Samsung Electronics KZ and Central Asia (SEKZ)  | Sale of electronic devices     | 100.0                                |
|                           | Samsung Electronics Rus Kaluga (SERK)           | Manufacture of CTV             | 100.0                                |
|                           | Samsung Russia Service Centre (SRSC)            | Services                       | 100.0                                |
|                           | Samsung Electronics (London) Limited (SEL)      | Holding Company                | 100.0                                |
|                           | Samsung Denmark Research Center (SDRC)          | R&D                            | 100.0                                |
|                           | Samsung France Research Center (SFRC)           | R&D                            | 100.0                                |
|                           | Samsung Cambridge Solution Centre (SCSC)        | R&D                            | 100.0                                |
|                           | Samsung Electronics Switzerland GmbH (SESG)     | Sale of electronic devices     | 100.0                                |
|                           | 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 of CTV/monitors    | 100.0                                |
|                           | Samsung Electronics Israel (SEIL)               | Marketing                      | 100.0                                |
| Middle East<br>and Africa | Samsung Electronics Tunisia (SETN)              | Marketing                      | 100.0                                |
|                           | Samsung Electronics Pakistan (SEPAK)            | Marketing                      | 100.0                                |
|                           | Samsung Electronics South Africa (SSA)          | Sale of electronic devices     | 100.0                                |
|                           | Samsung Electronics Turkey (SETK)               | Sale of electronic devices     | 100.0                                |
|                           | Samsung Semiconductor Israel R&D Center (SIRC)  | R&D                            | 100.0                                |
|                           | Samsung Electronics Levant (SELV)               | Sale of electronic devices     | 100.0                                |
|                           | Samsung Electronics Morocco (SEMRC)             | Sale of electronic devices     | 100.0                                |



## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| Area         | Subsidiaries                                  | Industry                                   | Percentage of ownership <sup>1</sup> |
|--------------|---|--|--------------------------------------|
|              | Samsung Japan (SJC)                           | Sale of electronic devices                 | 100.0                                |
|              | Samsung R&D Institute Japan (SRJ)             | R&D  | 100.0                                |
|              | Samsung Electronics Japan (SEJ)               | Sale of electronic devices                 | 100.0                                |
|              | Samsung Electronics Display (M) (SDMA)        | Manufacture and sale of electronic devices | 100.0                                |
|              | Samsung Electronics (M) (SEMA)                | Manufacture of home appliances             | 100.0                                |
|              | Samsung Vina Electronics (SAVINA)             | Manufacture and sale of electronic devices | 100.0                                |
|              | Samsung Asia Private (SAPL)                   | Sale of electronic devices                 | 100.0                                |
|              | Samsung India Electronics (SIEL)              | Manufacture and sale of electronic devices | 100.0                                |
|              | Samsung R&D Institute India-Bangalore (SRI-B) | R&D  | 100.0                                |
|              | Samsung Electronics Australia (SEAU)          | Sale of electronic devices                 | 100.0                                |
|              | Samsung Electronics Indonesia (SEIN)          | Manufacture and sale of electronic devices | 100.0                                |
| Rest of Asia | Samsung Telecommunications Indonesia (STIN)   | Sale and services of communication systems | 99.0                                 |
|              | Thai Samsung Electronics (TSE)                | Manufacture and sale of electronic devices | 91.8                                 |
|              | Samsung Electronics Philippines (SEPCO)       | Sale of electronic devices                 | 100.0                                |
|              | Samsung Malaysia Electronics (SME)            | Sale of electronic devices                 | 100.0                                |
|              | Samsung R&D Institute Bangladesh (SRBD)       | R&D  | 100.0                                |
|              | Samsung Electronics Vietnam (SEV)             | Manufacture of electronic devices          | 100.0                                |
|              | Samsung Telecommunications Malaysia (STM)     | Communication system services              | 100.0                                |
|              | Samsung Electronics Vietnam THAINGUYEN (SEVT) | Manufacture of communication equipment     | 100.0                                |
|              | Samsung Medison India (SMIN)                  | Medical equipment                          | 100.0                                |
|              | Medison Medical Systems (India) (MI)          | Medical equipment                          | 100.0                                |
|              | Samsung Electronics New Zealand (SENZ)        | Sale of electronic devices                 | 100.0                                |

<sup>1</sup> Ownership represents the Company's ownership of the voting rights in each entity.

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

(1) 2013

| <i>(In millions of Korean won)</i>        | 2013       |             |            |                   |
|---|------------|-------------|------------|-------------------|
|   | Assets     | Liabilities | Sales      | Net Income (Loss) |
| Samsung Display (SDC)                     | 35,754,894 | 6,682,229   | 29,386,907 | 2,400,779         |
| Samsung Electronics America (SEA)         | 12,248,560 | 7,262,519   | 14,321,018 | 70,690            |
| Samsung (China) Investment (SCIC)         | 8,406,438  | 6,780,610   | 25,605,822 | 743,369           |
| Samsung Semiconductor (SSI)               | 7,346,339  | 3,991,768   | 17,932,937 | 39,289            |
| Samsung Austin Semiconductor (SAS)        | 6,393,348  | 3,467,968   | 2,409,773  | 60,980            |
| Samsung Electronics Europe Holding (SEEH) | 5,780,302  | 4,025,760   | -          | (17,863)          |
| Samsung Electronics Vietnam (SEV)         | 5,625,759  | 1,493,868   | 26,594,578 | 3,087,252         |
| Samsung Telecommunications America (STA)  | 4,735,432  | 4,085,299   | 21,387,737 | 173,510           |
| Samsung Electronics Huizhou (SEHZ)        | 4,599,200  | 1,802,686   | 22,644,923 | 1,012,728         |
| Samsung (China) Semiconductor (SCS)       | 3,752,682  | 1,284,560   | -          | (40,537)          |
| Samsung Electronica da Amazonia (SEDA)    | 3,429,136  | 1,658,072   | 7,852,428  | 920,157           |
| Tianjin Samsung Telecom Technology (TSTC) | 2,939,027  | 1,415,277   | 15,293,633 | 767,822           |
| Samsung Asia Private (SAPL)               | 2,425,585  | 1,099,521   | 1,558,990  | 674,510           |
| Samsung India Electronics (SIEL)          | 1,924,832  | 1,195,824   | 6,737,419  | 324,171           |

**Samsung Electronics Co., Ltd. and Subsidiaries**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2013**

| <i>(In millions of Korean won)</i>          | <b>Assets</b> | <b>Liabilities</b> | <b>Sales</b> | <b>Net Income<br/>(Loss)</b> |
|---|---------------|--------------------|--------------|------------------------------|
| Samsung Electronics Europe Logistics (SELS) | 1,903,892     | 1,806,486          | 14,543,524   | 7,613                        |
| Samsung Electronics Slovakia (SESK)         | 1,764,078     | 317,224            | 4,561,795    | 140,825                      |
| Samsung Electronics Mexico (SEM)            | 1,554,638     | 1,311,133          | 3,261,067    | 9,886                        |
| Thai Samsung Electronics (TSE)              | 1,476,296     | 373,181            | 5,033,203    | 222,389                      |
| Samsung Suzhou LCD (SSL)                    | 1,463,589     | 379,118            | 18,892       | 12,067                       |
| Samsung Electronics Rus Company (SERC)      | 1,410,054     | 1,107,915          | 5,809,646    | (11,137)                     |
| Samsung Electronics (UK) (SEUK)             | 1,393,507     | 705,504            | 6,075,490    | 92,969                       |
| Samsung Electronics Taiwan (SET)            | 1,390,404     | 1,141,842          | 3,909,546    | 30,802                       |
| Shanghai Samsung Semiconductor (SSS)        | 1,310,109     | 1,005,056          | 15,937,922   | 130,082                      |
| Samsung Electronics Benelux (SEBN)          | 1,290,124     | 322,622            | 2,700,887    | 25,233                       |
| Samsung Electronics Hungarian (SEH)         | 1,249,691     | 253,536            | 3,272,358    | 103,658                      |

(2) 2012

**2012**

| <i>(In millions of Korean won)</i>          | <b>Assets</b> | <b>Liabilities</b> | <b>Sales</b> | <b>Net Income<br/>(Loss)</b> |
|---|---------------|--------------------|--------------|------------------------------|
| Samsung Display (SDC)                       | 33,791,814    | 9,122,941          | 22,304,545   | 2,079,916                    |
| Samsung Electronics America (SEA)           | 11,432,490    | 6,598,643          | 12,430,205   | 201,790                      |
| Samsung Austin Semiconductor (SAS)          | 6,728,824     | 3,819,196          | 3,063,343    | (86,815)                     |
| Samsung Semiconductor (SSI)                 | 5,502,929     | 2,136,789          | 17,325,969   | 20,797                       |
| Samsung (China) Investment (SCIC)           | 5,407,272     | 4,519,921          | 13,796,191   | 264,269                      |
| Samsung Telecommunications America (STA)    | 5,009,772     | 4,516,706          | 15,308,222   | 109,896                      |
| Samsung Electronics Europe Holding (SEEH)   | 4,377,597     | 3,068,900          | -            | 7,856                        |
| Samsung Electronics Vietnam (SEV)           | 3,416,148     | 1,498,575          | 14,599,505   | 854,250                      |
| Samsung Electronics Huizhou (SEHZ)          | 3,275,716     | 1,496,513          | 15,343,968   | 700,435                      |
| Samsung Electronica da Amazonia (SEDA)      | 2,556,334     | 1,564,590          | 6,145,530    | 198,552                      |
| Tianjin Samsung Telecom Technology (TSTC)   | 2,234,437     | 1,227,917          | 10,697,834   | 551,682                      |
| Samsung Electronics Taiwan (SET)            | 2,117,243     | 1,885,749          | 4,967,564    | 38,298                       |
| Shanghai Samsung Semiconductor (SSS)        | 1,998,989     | 1,824,247          | 12,584,108   | 60,991                       |
| Samsung Electronics Rus Company (SERC)      | 1,705,108     | 1,367,484          | 6,712,179    | 21,832                       |
| Samsung Electronics Slovakia (SESK)         | 1,696,474     | 426,980            | 5,279,531    | 147,665                      |
| Samsung Japan (SJC)                         | 1,570,232     | 1,382,927          | 6,021,986    | 26,503                       |
| Samsung Semiconductor Europe GmbH (SEEG)    | 1,569,684     | 1,556,757          | 5,191,270    | (32)                         |
| Samsung Electronics Europe Logistics (SELS) | 1,529,851     | 1,443,264          | 12,873,583   | 29,372                       |
| Samsung India Electronics (SIEL)            | 1,449,983     | 964,580            | 5,089,445    | 316,994                      |
| Thai Samsung Electronics (TSE)              | 1,447,777     | 463,908            | 4,799,886    | 295,994                      |
| Samsung Electronics (UK) (SEUK)             | 1,349,828     | 763,081            | 5,722,969    | 74,329                       |
| Samsung Electronics Hungarian (SEH)         | 1,301,842     | 416,616            | 3,542,522    | 153,961                      |
| Samsung Electronics Rus Kaluga (SERK)       | 1,296,147     | 465,344            | 2,348,160    | 194,169                      |
| Samsung Electronics Hong Kong (SEHK)        | 1,294,473     | 1,067,647          | 2,362,833    | 83,950                       |
| Samsung Electronics Mexico (SEM)            | 1,291,398     | 1,053,329          | 2,814,961    | 37,902                       |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(C) Changes in scope for consolidation

(1) Subsidiaries newly included in the consolidation for the year ended December 31, 2013:

| Area    | Subsidiaries   | Description           |
|---------|--|-----------------------|
| America | NeuroLogica  | Acquisition of shares |
|         | Intellectual Keystone Technology (IKT)                   | Incorporation         |
| Europe  | Samsung Electronics Switzerland GmbH (SESG)              | Incorporation         |
| Asia    | Samsung Electronics Vietnam THAINGUYEN (SEVT)            | Incorporation         |
|         | Samsung Electronics New Zealand (SENZ)                   | Incorporation         |
| China   | Samsung Network R&D Center China-Shenzhen (SRC-Shenzhen) | Incorporation         |
|         | Samsung R&D Institute China-Xian (SRC-Xian)              | Incorporation         |
|         | SEMES (Xian)   | Incorporation         |

(2) Subsidiaries excluded from the consolidation for the year ended December 31, 2013:

| Area     | Subsidiaries   | Description                                      |
|----------|--|--|
| Domestic | SECRON   | Merger   |
|          | GES  | Merger   |
| America  | Newton Sub   | Merger   |
|          | Samsung Medison America (SMUS)   | Liquidation                                      |
|          | Deltapoint Cardiac Diagnostics (Deltapoint)  | Liquidation                                      |
|          | Intellectual Keystone Technology (IKT)   | Disposal of shares                               |
|          | mSpot  | Merger   |
|          | Samsung Electronics Corporativo (SEC)  | Merger   |
|          | Samsung Medison Brasil (SMBR)  | Merger   |
| Europe   | Samsung Telecoms (UK) (STUK)   | Liquidation                                      |
|          | Samsung LCD Netherlands R&D Center (SNRC)  | Disposal   |
|          | Samsung LCD Netherlands R&D Center UK (SNRC (UK))  | Disposal   |
|          | General RF Modules   | Liquidation                                      |
|          | Samsung Medison France (SMFR)  | Liquidation                                      |
|          | Samsung Opto-Electronics GmbH (SOG)  | Liquidation                                      |
|          | Samsung Medison Italia (SMIT)  | Liquidation                                      |
| Asia     | Samsung Electronics Philippines Manufacturing (SEPHIL)   | Disposal   |
|          | Batino Realty Corporation (BRC)  | Disposal   |
|          | TNP Small/Medium Size & Venture Enterprise Growth Promotion Investment Limited Partnership (TSUNAMI) | Reclassified into an associate from a subsidiary |
|          | Samsung LCD Netherlands R&D Center HK (SNRC (HK))  | Disposal   |
| China    | Medison (Shanghai) (SMS2)  | Liquidation                                      |

# Samsung Electronics Co., Ltd. and Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 Company has prepared the consolidated financial statements in accordance with Korean International Financial Reporting Standards (“K-IFRS”). International Financial Reporting Standards (IFRS) have been adopted by the Korean Accounting Standards Board as K-IFRS based on standards and interpretations published by the International Accounting Standards Board.

K-IFRS permits the use of critical accounting estimates in the preparation of the financial statements and requires management judgments in applying accounting policies. Footnote 3 explains where more complex and higher standards of judgment or critical assumptions and estimates are required.

#### 2.2 Changes in Accounting Policy and Disclosures

##### (A) New and amended standards adopted by the Company

The Company applied the following amended and enacted standards for the annual period beginning on January 1, 2013:

##### *K-IFRS 1110, ‘Consolidated Financial Statements’*

The standard introduces a single control concept and provides a specific guidance for the control. The adoption of this standard does not have an impact on consolidation scope in the consolidated financial statements.

##### *K-IFRS 1111, ‘Joint Arrangements’*

The standard reflects the substance of joint arrangements and focuses on the rights and obligations of the parties to the joint arrangements rather than on the legal forms of the arrangements. Joint arrangements are classified into joint operations or joint ventures. The adoption of this standard does not have a material impact on the consolidated financial statements.

##### *K-IFRS 1112, ‘Disclosure of Interests in Other Entities’*

The standard provides disclosure requirements for all types of equity investments in other entities including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

##### *K-IFRS 1113, ‘Fair Value Measurement’*

The standard provides a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across K-IFRS. The adoption of this standard does not have a material impact on the consolidated financial statements.

##### *K-IFRS 1027, ‘Separate Financial Statements’*

The standard contains accounting treatments and requirements for investments in subsidiaries, associates, and joint ventures relating only to separate financial statements of the Company.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (B) New and amended standards early adopted by the Company

##### *Amendment to K-IFRS 1036, 'Impairment of Assets'*

The amendment reflects the change in disclosure requirement of the recoverable amount for each cash-generating unit including goodwill or intangible assets with indefinite useful lives. The amendment requires disclosure of the recoverable amount only if the entity has recognized impairment losses or reversals of impairment losses. For consistency, the amendment also requires additional disclosures when the recoverable amount of impaired assets is based on fair value less costs of disposal. The amendment to this standard does not have a material impact on the consolidated financial statements.

##### *Amendments to K-IFRS 1110, 'Consolidated Financial Statements', K-IFRS 1112, 'Disclosure of Interests in Other Entities', and K-IFRS 1027, 'Separate Financial Statements'*

The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of presenting consolidated financial statements. These amendments do not apply to a parent of an investment entity if the parent itself is not an investment entity. The amendments to K-IFRS 1110 and K-IFRS 1027 do not have a material impact on the consolidated financial statements.

#### (C) New and amended standards not adopted by the Company

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2013 and not early adopted are as follows:

##### *Amendment to K-IFRS 1032, 'Financial Instruments: Presentation'*

The standard provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. This amendment is effective for annual periods beginning on or after January 1, 2014, and the Company is assessing the impact of application of this amendment on its consolidated financial statements.

##### *Enactment of K-IFRIC Interpretations 2121, 'Levies'*

The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation (the obligating event). This interpretation is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Company is assessing the impact of application of this interpretation on its consolidated financial statements.

### 2.3 Consolidation

The Company prepares annual consolidated financial statements in accordance with K-IFRS 1110, '*Consolidated Financial Statements*'

#### (A) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company 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 Company obtains control of a subsidiary and ceases when the Company loses control of the subsidiary.

## **Samsung Electronics Co., Ltd. and Subsidiaries**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

The Company 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 Company 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 Company's previously held equity interest in the acquiree over (2) the net identifiable assets acquired. If the aggregate amount in (1) is less 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 Company subsidiaries are eliminated. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Company.

#### **(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 to non-controlling interests are also recorded in equity.

#### **(C) Disposal of subsidiaries**

If the Company 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 Company had directly disposed of the related assets or liabilities.

#### **(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 Company has significant influence, generally investees of which from 20% to 50% of voting stock is owned by the Company. Investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Company recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

## **Samsung Electronics Co., Ltd. and Subsidiaries**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### (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 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 Company'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 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 included in 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 Company 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.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognized in other comprehensive income. When a foreign operation is partially disposed of or sold, the exchange differences that were recorded in equity are reclassified as part of gains and losses on disposition in the statement of income. When the Company loses control over foreign subsidiaries, the exchange differences that were recorded in equity are reclassified into profit or loss when such gain or loss on disposition is recognized.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments are treated as the foreign operation's assets and liabilities. Such goodwill is expressed in the foreign operation's functional currency and is translated at the closing rate. Exchange differences are recognized in other comprehensive income.



## **Samsung Electronics Co., Ltd. and Subsidiaries**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **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 Company 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.

##### **(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-derivatives 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.

## **Samsung Electronics Co., Ltd. and Subsidiaries**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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 finance income. Dividends on available-for-sale financial assets are recognized in the statement of income as part of other non-operating income when the Company'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 Company transfers a financial asset and the transfer does not result in derecognition because the Company has retained substantially of all the risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Company 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.

### **2.7 Impairment of Financial Assets**

The Company 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 Company writes off financial assets when the assets are determined to be no longer 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 decline in the fair value of an available-for-sale equity instrument by more than 20% from its cost or a prolonged decline below its cost for more than six months 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 (or in the normal operating cycle of the Company if longer), they are classified as current assets. If not, 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 design costs, 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.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 group) 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 amount between 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 Company 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.

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 Company'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                       |
| Others                   | 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 are 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 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 life such as trademarks and licenses are amortized using the straight-line method over their estimated useful lives.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company'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 life 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 that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### 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 Company 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 it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired 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 (or in the normal operating cycle of the Company if longer), they are classified as current liabilities. If not, 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 Company 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.

## **Samsung Electronics Co., Ltd. and Subsidiaries**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **2.17 Provisions**

A provision is recognized when the Company 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.

#### **2.18 Net Defined Benefit Liabilities**

The Company has a variety of retirement pension plans including defined benefit or defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company 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 Company pays contributions to annuity plans that are managed either publicly or privately on a mandatory, contractual or voluntary basis. The Company 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.

## **Samsung Electronics Co., Ltd. and Subsidiaries**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **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 Company 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 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 fair value with the resulting valuation gain or loss recorded as an asset or liability. If the derivative instrument is not designated as a hedging instrument, the gain or loss is recognized in the statement of income in the period of change.

Fair value hedge accounting is applied to a derivative instrument with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. Hedge accounting is applied when the derivative instrument is designated as a hedging instrument and the hedge accounting criteria have been met.

#### **2.22 Dividend Distribution**

Dividend distribution to the Company's shareholders is recognized when the dividends are approved.

#### **2.23 Share Capital**

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

## **Samsung Electronics Co., Ltd. and Subsidiaries**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **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 Company's activities. Revenue is shown net of value-added tax, returns, sales incentives and discounts and after eliminating intercompany transactions.

The Company recognizes revenue when specific recognition criteria have been met for each of the Company's activities as described below. The Company bases its estimates 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, continuing managerial involvement usually associated with ownership and effective control have ceased, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. The Company records reductions to revenue for special pricing arrangements, price protection and other volume based discounts. If product sales are subject to customer acceptance, revenue is not recognized until customer acceptance occurs.

##### **(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) Other sources of revenue**

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Royalty income is recognized on an accruals basis in accordance with the substance of the relevant agreements. 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 attaching to it. Government grants related to assets are presented by deducting the grants in arriving at the carrying amount of the assets, and grants related to income are deferred and presented by deducting the related expenses for the purpose of the government grants.

#### **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.

## **Samsung Electronics Co., Ltd. and Subsidiaries**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **2.27 Operating Segments**

Operating segments are disclosed in the manner reported to the chief operating decision-maker (please see footnote 33). 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 Company operates primarily in Korean won and its official accounting records are maintained in Korean won. The US dollar amounts provided in the financial statements represent supplementary information solely for the convenience of the reader. All Korean won amounts are expressed in U.S. dollars at the rate of ₩1,055.30 to US \$1, the exchange rate in effect on December 31, 2013. Such presentation is not in accordance with generally accepted accounting principles, and should not be construed as a representation that the Korean won amounts shown could be readily converted, realized or settled in US dollars at this or at any other rate.

#### **2.29 Approval of the Consolidated Financial Statements**

These consolidated financial statements were approved by the Board of Directors on January 24, 2014.

### **3. Critical Accounting Estimates and Assumptions**

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

#### **(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.



## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (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 Company, 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) Estimated impairment of goodwill

The Company tests at the end of each reporting period whether goodwill has suffered any impairment in accordance with the accounting policy described in Note 2.12. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations are based on estimates.

#### (F) Income taxes

Income taxes on the Company's taxable income from operating activities are subject to various tax laws and determinations of each tax authority across various countries in the world. There is uncertainty in determining the eventual tax effects on the taxable income from operating activities. The Company 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 of December 31, 2013 and 2012, consist of the following:

| <i>(In millions of Korean won)</i> | <b>2013</b> |            | <b>2012</b> |            |
|------------------------------------|-------------|------------|-------------|------------|
| Cash on hand                       | ₩           | 14,454     | ₩           | 12,900     |
| Bank deposits, etc.                |             | 16,270,326 |             | 18,778,560 |
| Total                              | ₩           | 16,284,780 | ₩           | 18,791,460 |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 5. Financial Assets Subject to Withdrawal Restrictions

Financial instruments subject to withdrawal restrictions as of December 31, 2013 and 2012, consist of the following:

| <i>(In millions of Korean won)</i> | <b>2013</b> |        | <b>2012</b> |        |
|------------------------------------|-------------|--------|-------------|--------|
| Short-term financial instruments   | ₩           | 23,850 | ₩           | 46,489 |
| Long-term financial instruments    |             | 15     |             | 29     |

#### 6. Financial Instruments by Category

(A) Categorizations of financial assets and liabilities as of December 31, 2013 and 2012, are as follows:

(1) As of December 31, 2013

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

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

**Samsung Electronics Co., Ltd. and Subsidiaries**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(2) As of December 31, 2012

| <i>(In millions of Korean won)</i>             | <b>Assets at fair<br/>value through<br/>profit or loss</b> | <b>Loans and<br/>receivables</b> | <b>Available-for-<br/>sale financial<br/>assets</b> | <b>Total</b> |
|--|--|----------------------------------|---|--------------|
| <b>Assets</b>                                  |  |                                  |   |              |
| Cash and cash equivalents                      | ₩ -  | ₩ 18,791,460                     | ₩ -   | ₩ 18,791,460 |
| Short-term financial instruments               | -  | 17,397,937                       | -   | 17,397,937   |
| Short-term available-for-sale financial assets | -  | -                                | 1,258,874   | 1,258,874    |
| Trade and other receivables                    | -  | 23,861,235                       | -   | 23,861,235   |
| Long-term available-for-sale financial assets  | -  | -                                | 5,229,175   | 5,229,175    |
| Others   | 47,227   | 5,685,042                        | -   | 5,732,269    |
| <b>Total</b>                                   | ₩ 47,227   | ₩ 65,735,674                     | ₩ 6,488,049   | ₩ 72,270,950 |

| <i>(In millions of Korean won)</i> | <b>Liabilities at<br/>fair value<br/>through profit<br/>or loss</b> | <b>Financial<br/>liabilities<br/>measured at<br/>amortized cost</b> | <b>Other<br/>financial<br/>liabilities</b> | <b>Total</b> |
|------------------------------------|---|---|--|--------------|
| <b>Liabilities</b>                 |   |   |  |              |
| Trade and other payables           | ₩ -   | ₩ 16,889,350  | ₩ -  | ₩ 16,889,350 |
| Short-term borrowings              | -   | 4,115,249   | 4,328,503                                  | 8,443,752    |
| Debentures                         | -   | 1,829,374   | -  | 1,829,374    |
| Long-term borrowings               | -   | 3,623,028   | -  | 3,623,028    |
| Long-term other payables           | -   | 1,165,881   | -  | 1,165,881    |
| Others                             | 79,212  | 10,788,823  | -  | 10,868,035   |
| <b>Total</b>                       | ₩ 79,212  | ₩ 38,411,705  | ₩ 4,328,503                                | ₩ 42,819,420 |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(B) Net gains or net losses on each category of financial instruments for the years ended December 31, 2013 and 2012, are as follows:

(1) As of December 31, 2013

*(In millions of Korean won)*

| Financial Assets   | Assets at fair<br>value through<br>profit or loss | Loans and<br>receivables | Available-for-<br>sale financial<br>assets | Total       |
|--|---|--------------------------|--|-------------|
| Gain on valuation (other comprehensive income)               | ₩ -   | ₩ -                      | ₩ 1,271,817                                | ₩ 1,271,817 |
| Gain/(loss) on valuation/disposal (profit or loss)           | (32,867)  | (33,518)                 | 1,079,393                                  | 1,013,008   |
| Loss on valuation (reclassification)                         | -   | -                        | (1,000,260)                                | (1,000,260) |
| Interest income  | -   | 1,342,394                | 9,215                                      | 1,351,609   |
| Foreign exchange differences (profit or loss)                | -   | (393,407)                | -  | (393,407)   |
| Foreign exchange differences<br>(other comprehensive income) | -   | -                        | 939  | 939         |
| Dividend income  | -   | -                        | 112,159                                    | 112,159     |
| Impairment/reversal (profit or loss)                         | -   | (18,681)                 | (5,177)                                    | (23,858)    |

*(In millions of Korean won)*

| Financial Liabilities                         | Liabilities at<br>fair value<br>through profit<br>or loss | Financial<br>liabilities<br>measured at<br>amortized cost | Other financial<br>liabilities | Total       |
|---|---|---|--------------------------------|-------------|
| Loss on valuation/disposal (profit or loss)   | ₩ (216,236)   | ₩ -   | ₩ -                            | ₩ (216,236) |
| Interest expense                              | -   | 319,342   | 190,316                        | 509,658     |
| Foreign exchange differences (profit or loss) | -   | (230,212)   | 43,836                         | (186,376)   |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) As of December 31, 2012

*(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)            | ₩ -   | ₩ -                   | ₩ 1,185,256                         | ₩ 1,185,256 |
| Gain/(loss) on valuation/disposal (profit or loss)        | (74,609)                                    | 28,915                | 105,192                             | 59,498      |
| Gain on valuation (reclassification)                      | -   | -                     | 23,072                              | 23,072      |
| Interest income   | -   | 840,150               | 5,281                               | 845,431     |
| Foreign exchange differences (profit or loss)             | -   | (355,989)             | -                                   | (355,989)   |
| Foreign exchange differences (other comprehensive income) | -   | -                     | (19,302)                            | (19,302)    |
| Dividend income   | -   | -                     | 106,181                             | 106,181     |
| Impairment/reversal (profit or loss)                      | -   | (76,231)              | (94,466)                            | (170,697)   |

*(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       |
|---|--|--|-----------------------------|-------------|
| Loss on valuation/disposal (profit or loss)   | ₩ (125,553)                                      | ₩ -  | ₩ -                         | ₩ (125,553) |
| Interest expense                              | -  | 277,512  | 321,494                     | 599,006     |
| Foreign exchange differences (profit or loss) | -  | 17,938   | 43,909                      | 61,847      |

#### 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 of December 31, 2013 and 2012, 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), A (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 with the trade payables guaranteed by credit insurance or collateral
- Group 2: Customers having experienced impairment of capital. As the trade payables are guaranteed by credit insurance or collateral, all default risk has been relieved

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (A) Accounts receivables

| <i>(In millions of Korean won)</i>            | <b>2013</b> |            | <b>2012</b> |            |
|---|-------------|------------|-------------|------------|
| Counterparties with external credit rating    |             |            |             |            |
| Superior ability to repay                     | ₩           | 3,414,467  | ₩           | 1,818,158  |
| Strong ability to repay                       |             | 2,796,881  |             | 3,742,515  |
| Acceptable ability to repay                   |             | 2,491,635  |             | 3,217,663  |
| Currently having the ability to repay         |             | 4,370,114  |             | 3,834,957  |
|   |             | 13,073,097 |             | 12,613,293 |
| Counterparties without external credit rating |             |            |             |            |
| Group 1                                       |             | 9,429,612  |             | 8,680,397  |
| Group 2                                       |             | 153,770    |             | 50,160     |
|   |             | 9,583,382  |             | 8,730,557  |
|   | ₩           | 22,656,479 | ₩           | 21,343,850 |

#### (B) Cash equivalents and short-term financial instruments

| <i>(In millions of Korean won)</i>    | <b>2013</b> |            | <b>2012</b> |            |
|---------------------------------------|-------------|------------|-------------|------------|
| Superior ability to repay             | ₩           | 2,584,121  | ₩           | 2,850,476  |
| Strong ability to repay               |             | 49,891,037 |             | 32,675,712 |
| Acceptable ability to repay           |             | 493,383    |             | 505,631    |
| Currently having the ability to repay |             | 1,111      |             | 12,896     |
| Others <sup>1</sup>                   |             | 23,376     |             | 131,782    |
|                                       | ₩           | 52,993,028 | ₩           | 36,176,497 |

<sup>1</sup> Short-term financial instruments held at financial institutions (Credit union, etc.) without external credit rating

### 8. Transfer of Financial Assets

Trade receivables of the Company have been discounted through factoring agreements with banks in 2013 and 2012. Collaterals (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 statements of financial position (Note 15).

The following table presents a breakdown of discounted trade receivables as of December 31, 2013 and 2012:

| <i>(In millions of Korean won)</i>                               | <b>2013</b> |           | <b>2012</b> |           |
|--|-------------|-----------|-------------|-----------|
| Carrying amount of the discounted trade receivables <sup>1</sup> | ₩           | 3,256,935 | ₩           | 4,328,503 |
| Carrying amount of the related borrowings                        |             | 3,256,935 |             | 4,328,503 |

<sup>1</sup> The discounted trade receivables include intercompany balances.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 9. Available-for-Sale Financial Assets

Changes in available-for-sale financial assets for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>                       | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| Balance as of January 1                                  | ₩ 6,488,049 | ₩ 3,879,567 |
| Acquisitions   | 4,031,357   | 2,613,703   |
| Increase from business combinations                      | -           | 16,544      |
| Disposals  | (4,120,906) | (1,171,666) |
| Gain on valuation of available-for-sale financial assets | 1,271,817   | 1,185,256   |
| Impairment   | (5,177)     | (28,009)    |
| Foreign exchange differences                             | 939         | (19,302)    |
| Others   | 60,828      | 11,956      |
| Balance as of December 31                                | ₩ 7,726,907 | ₩ 6,488,049 |
| (A) Current portion                                      | 1,488,527   | 1,258,874   |
| (B) Non-current portion                                  | 6,238,380   | 5,229,175   |

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

Details of short-term available-for-sale financial assets as of December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>    | <b>2013</b> | <b>2012</b> |
|---------------------------------------|-------------|-------------|
| Beneficiary certificates <sup>1</sup> | ₩ 1,257,492 | ₩ 1,258,873 |
| National bonds                        | 180,959     | 1           |
| Bank debentures                       | 50,076      | -           |
|                                       | ₩ 1,488,527 | ₩ 1,258,874 |

<sup>1</sup> Details of beneficiary certificates as of December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i> | <b>2013</b> | <b>2012</b> |
|------------------------------------|-------------|-------------|
| Bonds                              | ₩ 1,232,523 | ₩ 1,159,290 |
| Time deposits                      | 364         | 238         |
| Call loans                         | 15,449      | 85,200      |
| Others                             | 9,156       | 14,145      |
|                                    | ₩ 1,257,492 | ₩ 1,258,873 |

Changes in valuation gains (losses) recognized in equity (other comprehensive income) on short-term available-for-sale financial assets for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i> | <b>2013</b> | <b>2012</b> |
|------------------------------------|-------------|-------------|
| Balance as of January 1            | ₩ 8,873     | ₩ 5,969     |
| Fair value gains                   | 7,492       | 8,873       |
| Net gains transferred from equity  | (8,873)     | (5,969)     |
| Balance as of December 31          | 7,492       | 8,873       |
| Deferred income tax                | (1,813)     | (2,147)     |
|                                    | ₩ 5,679     | ₩ 6,726     |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Details of long-term available-for-sale financial assets as of December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i> | Detail | 2013 |           | 2012 |           |
|------------------------------------|--------|------|-----------|------|-----------|
| Equity securities - Listed         | (1)    | ₩    | 4,399,314 | ₩    | 4,435,856 |
| Equity securities - Non-listed     | (2)    |      | 782,297   |      | 667,325   |
| Debt securities <sup>1</sup>       | (3)    |      | 1,056,769 |      | 125,994   |
|                                    |        | ₩    | 6,238,380 | ₩    | 5,229,175 |

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

#### (1) Equity securities - Listed (excluding investments in associates and joint ventures)

Details of listed equity securities as of December 31, 2013 and 2012, are as follows:

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

|                                 | 2013                      |                                |                     | 2012                         |                              |
|---------------------------------|---------------------------|--------------------------------|---------------------|------------------------------|------------------------------|
|                                 | Number of<br>Shares Owned | Percentage of<br>Ownership (%) | Acquisition<br>Cost | Book Value<br>(Market Value) | Book Value<br>(Market Value) |
| Samsung Heavy Industries        | 40,675,641                | 17.6                           | ₩ 258,299           | ₩ 1,547,708                  | ₩ 1,568,046                  |
| Samsung Fine Chemicals          | 2,164,970                 | 8.4                            | 45,678              | 96,449                       | 132,063                      |
| Hotel Shilla                    | 2,004,717                 | 5.1                            | 13,957              | 133,314                      | 88,107                       |
| Cheil Worldwide                 | 2,998,725                 | 2.6                            | 2,920               | 82,465                       | 64,623                       |
| iMarket Korea                   | 647,320                   | 1.8                            | 324                 | 16,668                       | 18,416                       |
| SFA                             | 1,822,000                 | 10.2                           | 38,262              | 74,884                       | 85,998                       |
| Wonik IPS                       | 7,220,216                 | 9.0                            | 63,249              | 61,949                       | -                            |
| ASML                            | 12,595,575                | 2.9                            | 726,024             | 1,248,019                    | 856,253                      |
| CSR                             | 9,925,000                 | 6.0                            | 59,612              | 110,135                      | 58,765                       |
| Rambus                          | 4,788,125                 | 4.2                            | 92,682              | 47,851                       | 24,976                       |
| Seagate Technology <sup>1</sup> | 12,539,490                | 3.8                            | 218,544             | 743,161                      | 1,474,032                    |
| Wacom                           | 8,398,400                 | 5.0                            | 62,013              | 62,268                       | -                            |
| Sharp                           | 35,804,000                | 2.1                            | 122,535             | 120,143                      | -                            |
| Others                          | -                         | -                              | 59,328              | 54,300                       | 64,577                       |
|                                 |                           |                                | ₩ 1,763,427         | ₩ 4,399,314                  | ₩ 4,435,856                  |

<sup>1</sup> In October 2013, the Company sold part of its investment in Seagate Technology for USD 1,505 million.

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

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



## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (2) Equity securities - Non-listed (excluding investments in associates and joint ventures)

Details of non-listed equity securities as of December 31, 2013 and 2012, are as follows:

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

|                            | 2013                      |                                |                  | 2012       |            |
|----------------------------|---------------------------|--------------------------------|------------------|------------|------------|
|                            | Number of<br>Shares Owned | Percentage of<br>Ownership (%) | Acquisition Cost | Book Value | Book Value |
| Kihyup Technology          | 1,000,000                 | 17.2                           | ₩ 5,000          | ₩ 5,000    | ₩ 5,000    |
| Pusan Newport <sup>1</sup> | 1,135,307                 | 1.0                            | 5,677            | 5,677      | 5,677      |
| Samsung Venture Investment | 980,000                   | 16.3                           | 4,900            | 7,021      | 6,053      |
| Samsung Petrochemical      | 514,172                   | 13.0                           | 8,040            | 80,347     | 84,427     |
| Samsung General Chemicals  | 1,914,251                 | 3.9                            | 19,143           | 80,653     | 74,487     |
| Taewon Electric            | 9,000                     | 15.0                           | 16,544           | 17,072     | 16,225     |
| CSOT <sup>2</sup>          | -                         | 14.5                           | 278,130          | 278,130    | 278,130    |
| Pantech                    | 53,000,000                | 10.0                           | 53,000           | 53,053     | -          |
| Nanosys <sup>2</sup>       | 13,100,436                | 13.0                           | 17,861           | 17,861     | 17,861     |
| OpenX <sup>2</sup>         | 8,899,172                 | 3.5                            | 10,738           | 10,738     | 10,738     |
| Others <sup>3</sup>        | -                         | -                              | 242,069          | 226,745    | 168,727    |
|                            |                           |                                | ₩ 661,102        | ₩ 782,297  | ₩ 667,325  |

<sup>1</sup> As of December 31, 2013, the Company's investments in Pusan Newport are pledged as collateral against the investee's debt (Note 19).

<sup>2</sup> Nonmarketable shares including CSOT are measured at cost as the range of reasonable fair value estimates is significant and the probabilities of the various estimates and applicable discount rate cannot be reasonably assessed.

<sup>3</sup> Impairment losses on unlisted equity securities resulting from the decline in realizable value below the acquisition cost amounted to ₩5,177 million and ₩2,235 million for the years ended December 31, 2013 and 2012, respectively.

#### (3) Debt securities

Details of debt securities as of December 31, 2013 and 2012, are as follows:

*(In millions of Korean won)*

|                             | 2013 |           | 2012 |         |
|-----------------------------|------|-----------|------|---------|
| Corporate bonds             | ₩    | 106,944   | ₩    | 125,894 |
| Government and public bonds |      | 50,356    |      | 100     |
| Bank debentures             |      | 899,469   |      | -       |
|                             | ₩    | 1,056,769 | ₩    | 125,994 |

Changes in valuation gain (loss) on long-term available-for-sale financial assets for the years ended December 31, 2013 and 2012, are as follows:

*(In millions of Korean won)*

|   | 2013 |           | 2012 |           |
|---|------|-----------|------|-----------|
| Balance as of January 1                           | ₩    | 2,572,755 | ₩    | 1,367,331 |
| Fair value gain                                   |      | 1,264,325 |      | 1,176,383 |
| Net gains or losses transferred from equity       |      | (991,387) |      | 29,041    |
| Balance as of December 31                         |      | 2,845,693 |      | 2,572,755 |
| Deferred income tax and non-controlling interests |      | (662,359) |      | (577,945) |
|   | ₩    | 2,183,334 | ₩    | 1,994,810 |

**Samsung Electronics Co., Ltd. and Subsidiaries**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**10. Trade and Other Receivables**

(A) Trade and other receivables, and provisions for impairment as of December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i> | <b>2013</b>  |                  | <b>2012</b>  |                  |
|------------------------------------|--------------|------------------|--------------|------------------|
|                                    | <b>Trade</b> | <b>Non-Trade</b> | <b>Trade</b> | <b>Non-Trade</b> |
| Receivables                        | ₩ 25,292,231 | ₩ 2,931,605      | ₩ 24,168,427 | ₩ 2,834,187      |
| Less: Provisions for impairment    | (267,675)    | (20,046)         | (276,787)    | (2,595)          |
| Receivables, net                   | 25,024,556   | 2,911,559        | 23,891,640   | 2,831,592        |
| Less: Non-current portion          | (36,024)     | (24,157)         | (30,405)     | (18,231)         |
| Current portion                    | ₩ 24,988,532 | ₩ 2,887,402      | ₩ 23,861,235 | ₩ 2,813,361      |

The Company transferred receivable balances to a bank in exchange for cash during the years ended December 31, 2013 and 2012. The outstanding balances of transferred receivables amounting to ₩3,256,935 million and ₩4,328,503 million have been accounted for as borrowings as of December 31, 2013 and 2012, respectively (Note 15).

(B) Movements in the provisions for impairment of receivables for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>                                   | <b>2013</b>  |                  | <b>2012</b>  |                  |
|--|--------------|------------------|--------------|------------------|
|  | <b>Trade</b> | <b>Non-Trade</b> | <b>Trade</b> | <b>Non-Trade</b> |
| Balance as of January 1  | ₩ (276,787)  | ₩ (2,595)        | ₩ (214,597)  | ₩ (37,833)       |
| Provisions for impaired receivables<br>(reversals of unused amounts) | (2,785)      | (18,794)         | (83,588)     | 6,370            |
| Receivables written off during the year as uncollectible             | 13,787       | 511              | 18,752       | 28,203           |
| Others   | (1,890)      | 832              | 2,646        | 665              |
| Balance as of December 31  | ₩ (267,675)  | ₩ (20,046)       | ₩ (276,787)  | ₩ (2,595)        |

(C) The aging analysis of trade and other receivables as of December 31, 2013 and 2012, is as follows:

| <i>(In millions of Korean won)</i>       | <b>2013</b> |            | <b>2012</b> |            |
|--|-------------|------------|-------------|------------|
| Receivables not past due                 | ₩           | 25,420,912 | ₩           | 24,151,060 |
| Past due but not impaired <sup>1</sup> : |             |            |             |            |
| Less than 31 days overdue                |             | 2,058,708  |             | 2,226,759  |
| Impaired <sup>2</sup> :                  |             |            |             |            |
| 31 days to 90 days overdue               |             | 184,405    |             | 231,343    |
| 90 days overdue or more                  |             | 559,811    |             | 393,452    |
|  | ₩           | 28,223,836 | ₩           | 27,002,614 |

<sup>1</sup> The Company does not consider receivables that are overdue for less than or equal to 31 days as impaired.

<sup>2</sup> Provisions for impaired receivable amount to ₩287,721 million as of December 31, 2013 (2012: ₩279,382 million).

(D) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. As of December 31, 2013, the Company has credit insurance with Korea Trade Insurance and overseas insurance companies against its export accounts receivables from approved foreign customers.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 11. Inventories

Inventories as of December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i> | 2013            |                        |              | 2012            |                        |              |
|------------------------------------|-----------------|------------------------|--------------|-----------------|------------------------|--------------|
|                                    | Gross<br>Amount | Valuation<br>Allowance | Book Value   | Gross<br>Amount | Valuation<br>Allowance | Book Value   |
| Finished goods                     | ₩ 7,597,391     | ₩ (168,041)            | ₩ 7,429,350  | ₩ 7,003,826     | ₩ (166,576)            | ₩ 6,837,250  |
| Work in process                    | 4,466,028       | (395,762)              | 4,070,266    | 3,623,572       | (392,996)              | 3,230,576    |
| Raw materials and supplies         | 6,960,985       | (151,873)              | 6,809,112    | 5,239,262       | (157,866)              | 5,081,396    |
| Materials in transit               | 826,140         | -                      | 826,140      | 2,598,191       | -                      | 2,598,191    |
|                                    | ₩ 19,850,544    | ₩ (715,676)            | ₩ 19,134,868 | ₩ 18,464,851    | ₩ (717,438)            | ₩ 17,747,413 |

The cost of inventories recognized as expense and included in 'cost of sales' amounts to ₩136,755,644 million (2012: ₩125,746,083 million). Inventory valuation loss of ₩435,607 million was recognized in 2013 (2012: ₩367,279 million).

#### 12. Investments in Associates and Joint Ventures

(A) Changes in investments in associates and joint ventures for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i> | 2013 |             | 2012 |             |
|------------------------------------|------|-------------|------|-------------|
| Balance as of January 1            | ₩    | 8,785,489   | ₩    | 9,204,169   |
| Acquisition                        |      | 181,307     |      | 279,022     |
| Disposal                           |      | (240)       |      | (21,891)    |
| Share of profit                    |      | 504,063     |      | 986,611     |
| Others <sup>1</sup>                |      | (3,048,327) |      | (1,662,422) |
| Balance as of December 31          | ₩    | 6,422,292   | ₩    | 8,785,489   |

<sup>1</sup> Others consist of dividends, business combination, and effects of changes in foreign exchange rates, etc.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(B) Major investments in associates and joint ventures as of December 31, 2013, are as follows:

(1) Investments in associates

| Investee                  | Nature of Relationship with Associate   | Percentage of Ownership <sup>1</sup> (%) | Principal Business Location |
|---------------------------|---|--|-----------------------------|
| Samsung Card              | Business alliance   | 37.5                                     | Korea                       |
| Samsung Electro-Mechanics | Manufacture and supply electronic components including passive component, circuit board, and module | 23.7                                     | Korea                       |
| Samsung SDI               | Manufacture and supply electronic devices including PDP and secondary (rechargeable) batteries      | 20.4                                     | Korea                       |
| Samsung SDS               | Provide IT services including computer programming, system integration and management               | 22.6                                     | Korea                       |
| Samsung Techwin           | Manufacture and supply engine and precision machines  | 25.5                                     | Korea                       |

<sup>1</sup> The ownership represents the Company's ownership of common stock in each entity.

(2) Investments in joint ventures

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

<sup>1</sup> The ownership represents the Company's ownership of common stock in each entity.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(C) Details of investments in associates and joint ventures as of December 31, 2013 and 2012, are as follows:

(1) Investments in associates

*(In millions of Korean won)*

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

*(In millions of Korean won)*

|                           |                         | <b>2012</b>      |   |                  |                    |
|---------------------------|-------------------------|------------------|---|------------------|--------------------|
| <b>Investee</b>           | <b>Acquisition cost</b> |                  | <b>Net asset value of equity shares<sup>1</sup></b> |                  | <b>Book value</b>  |
| Samsung Card              | ₩                       | 1,538,540        | ₩   | 2,221,201        | ₩ 2,238,073        |
| Samsung Electro-Mechanics |                         | 359,237          |   | 887,933          | 890,460            |
| Samsung SDI               |                         | 423,722          |   | 1,450,811        | 1,174,183          |
| Samsung SDS               |                         | 17,967           |   | 689,874          | 701,808            |
| Samsung Techwin           |                         | 174,531          |   | 401,146          | 360,739            |
| Others                    |                         | 461,599          |   | 513,580          | 457,016            |
| <b>Total</b>              | ₩                       | <b>2,975,596</b> | ₩   | <b>6,164,545</b> | ₩ <b>5,822,279</b> |

<sup>1</sup> Company's portion of net asset value of associates based on the Company's ownership percentage

**Samsung Electronics Co., Ltd. and Subsidiaries**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(2) Investments in joint ventures

*(In millions of Korean won)*

**2013**

| Investee                            | Acquisition cost |         | Net asset value of equity shares <sup>1</sup> |          | Book value |         |
|-------------------------------------|------------------|---------|---|----------|------------|---------|
| Samsung Corning Precision Materials | ₩                | -       | ₩   | -        | ₩          | -       |
| Samsung Corning Advanced Glass      |                  | 115,000 |   | 111,961  |            | 111,961 |
| Others                              |                  | 422,995 |   | (16,357) |            | 9,368   |
| <b>Total</b>                        | ₩                | 537,995 | ₩   | 95,604   | ₩          | 121,329 |

*(In millions of Korean won)*

**2012**

| Investee                            | Acquisition cost |         | Net asset value of equity shares <sup>1</sup> |           | Book value |           |
|-------------------------------------|------------------|---------|---|-----------|------------|-----------|
| Samsung Corning Precision Materials | ₩                | 297,165 | ₩   | 2,825,104 | ₩          | 2,794,617 |
| Samsung Corning Advanced Glass      |                  | 115,000 |   | 114,274   |            | 114,274   |
| Others                              |                  | 419,461 |   | 64,193    |            | 54,319    |
| <b>Total</b>                        | ₩                | 831,626 | ₩   | 3,003,571 | ₩          | 2,963,210 |

<sup>1</sup> Company's portion of net asset value of associates based on the Company's ownership percentage

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(D) Details of valuation of investments in associates and joint ventures under the equity method for the years ended December 31, 2013 and 2012, are as follows:

*(In millions of Korean won)*

| Investee   | <b>2013</b>                |                           |                                       |                     |                              |
|--|----------------------------|---------------------------|---------------------------------------|---------------------|------------------------------|
|  | Balance as of<br>January 1 | Gain/loss on<br>valuation | Other<br>comprehensive<br>income/loss | Others <sup>1</sup> | Balance as of<br>December 31 |
| Samsung Card                                     | ₩ 2,238,073                | ₩ 102,361                 | ₩ 29,828                              | ₩ (30,253)          | ₩ 2,340,009                  |
| Samsung Electro-Mechanics                        | 890,460                    | 75,565                    | 6,354                                 | (17,883)            | 954,496                      |
| Samsung SDI                                      | 1,174,183                  | 25,760                    | (10,310)                              | (14,429)            | 1,175,204                    |
| Samsung SDS                                      | 701,808                    | 69,739                    | (17,838)                              | 126,247             | 879,956                      |
| Samsung Techwin                                  | 360,739                    | 39,554                    | 9,021                                 | (6,569)             | 402,745                      |
| Samsung Corning Precision Materials <sup>2</sup> | 2,794,617                  | 347,981                   | (1,247)                               | (3,141,351)         | -                            |
| Samsung Corning Advanced Glass                   | 114,274                    | (2,302)                   | (11)                                  | -                   | 111,961                      |
| Others   | 511,335                    | (154,595)                 | 4,959                                 | 196,222             | 557,921                      |
| <b>Total</b>                                     | <b>₩ 8,785,489</b>         | <b>₩ 504,063</b>          | <b>₩ 20,756</b>                       | <b>₩(2,888,016)</b> | <b>₩ 6,422,292</b>           |

<sup>1</sup> Others consist of acquisitions, disposals, dividends, and effects of changes in foreign exchange rates, etc.

<sup>2</sup> During the year ended December 31, 2013, the Company signed a framework agreement for comprehensive business cooperation with Corning Incorporated and its related parties. As of December 31, 2013, the Company classified its share in Samsung Corning Precision Materials Co., Ltd (ownership percentage: 42.54%) as assets held-for-sale, and disposed of such shares for USD 1,902 million on January 15, 2014. Under the agreement, the Company will receive additional dividends after the resolution of shareholders' meeting.

*(In millions of Korean won)*

| Investee                            | <b>2012</b>                |                           |                                       |                     |                              |
|-------------------------------------|----------------------------|---------------------------|---------------------------------------|---------------------|------------------------------|
|                                     | Balance as of<br>January 1 | Gain/loss on<br>valuation | Other<br>comprehensive<br>income/loss | Others <sup>1</sup> | Balance as of<br>December 31 |
| Samsung Card                        | ₩ 2,184,855                | ₩ 264,688                 | ₩ (181,217)                           | ₩ (30,253)          | ₩ 2,238,073                  |
| Samsung Electro-Mechanics           | 799,792                    | 102,946                   | 11,689                                | (23,967)            | 890,460                      |
| Samsung SDI                         | 1,185,509                  | 31,256                    | (30,531)                              | (12,051)            | 1,174,183                    |
| Samsung SDS                         | 632,593                    | 89,157                    | (16,488)                              | (3,454)             | 701,808                      |
| Samsung Techwin                     | 370,379                    | 39,356                    | (27,171)                              | (21,825)            | 360,739                      |
| Samsung Corning Precision Materials | 3,089,298                  | 644,242                   | (10,300)                              | (928,623)           | 2,794,617                    |
| Samsung Corning Advanced Glass      | -                          | (726)                     | -                                     | 115,000             | 114,274                      |
| Others                              | 941,743                    | (184,308)                 | (96,473)                              | (149,627)           | 511,335                      |
| <b>Total</b>                        | <b>₩ 9,204,169</b>         | <b>₩ 986,611</b>          | <b>₩ (350,491)</b>                    | <b>₩(1,054,800)</b> | <b>₩ 8,785,489</b>           |

<sup>1</sup> Others consist of acquisitions, disposals, dividends, and effects of changes in foreign exchange rates, etc.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(1) A summary of condensed financial information of major associates, details of adjustments from the book value of investments in associates, and dividends received from associates as of and for the years ended December 31, 2013 and 2012, is as follows:

| <i>(In millions of Korean won)</i>  |                           | <b>2013</b>                      |             |             |                    |  |
|---|---------------------------|----------------------------------|-------------|-------------|--------------------|--|
| <b>Investee</b>   | Samsung Card <sup>1</sup> | Samsung<br>Electro-<br>Mechanics | Samsung SDI | Samsung SDS | Samsung<br>Techwin |  |
| <b>1. Condensed financial information</b>   |                           |                                  |             |             |                    |  |
| Current assets  | ₩ 16,560,926              | ₩ 2,650,765                      | ₩ 2,063,192 | ₩ 2,928,998 | ₩ 1,561,706        |  |
| Non-current assets  |                           | 4,534,578                        | 8,492,479   | 2,371,102   | 1,872,518          |  |
| Current liabilities   | 10,358,265                | 1,787,432                        | 1,526,957   | 1,219,484   | 1,169,253          |  |
| Non-current liabilities   |                           | 1,139,884                        | 1,486,297   | 197,222     | 560,191            |  |
| Non-controlling interests   | -                         | 83,966                           | 164,323     | 80,644      | 1,628              |  |
| Revenue   | 2,847,053                 | 8,256,579                        | 5,016,465   | 7,046,833   | 2,912,031          |  |
| <b>2. Details of adjustments from the book value of investments in associates</b> |                           |                                  |             |             |                    |  |
| Net assets (a)  | 6,202,661                 | 4,174,061                        | 7,378,094   | 3,802,750   | 1,703,152          |  |
| Ownership percentage <sup>2</sup> (b)   | 37.5%                     | 22.8%                            | 19.7%       | 22.6%       | 25.5%              |  |
| Net assets of equity shares (a x b)   | 2,322,897                 | 951,693                          | 1,451,770   | 858,671     | 433,624            |  |
| Goodwill  | 17,181                    | -                                | -           | 26,801      | -                  |  |
| Intercompany transactions, etc.   | (69)                      | 2,803                            | (276,566)   | (5,516)     | (30,879)           |  |
| Book value of associates  | 2,340,009                 | 954,496                          | 1,175,204   | 879,956     | 402,745            |  |
| <b>3. Dividends from associates</b>   |                           |                                  |             |             |                    |  |
| Dividends   | ₩ 30,375                  | ₩ 17,693                         | ₩ 13,924    | ₩ 3,914     | ₩ 6,763            |  |

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

<sup>2</sup> Ownership percentage includes common and preferred stocks

| <i>(In millions of Korean won)</i>                    |                 | <b>2013</b>                      |                |                |                    |            |
|---|-----------------|----------------------------------|----------------|----------------|--------------------|------------|
| <b>Investee</b>                                       | Samsung<br>Card | Samsung<br>Electro-<br>Mechanics | Samsung<br>SDI | Samsung<br>SDS | Samsung<br>Techwin | Others     |
| Profit (loss) from continuing operations <sup>1</sup> | ₩ 273,232       | ₩ 330,240                        | ₩ 130,599      | ₩ 312,372      | ₩ 132,493          | ₩(139,194) |
| Other comprehensive income (loss) <sup>1</sup>        | 84,153          | 26,676                           | (63,211)       | (88,703)       | 21,596             | (11,862)   |
| Total comprehensive income (loss) <sup>1</sup>        | ₩ 357,385       | ₩ 356,916                        | ₩ 67,388       | ₩ 223,669      | ₩ 154,089          | ₩(151,056) |

<sup>1</sup> Profit attributable to owners of the parent



**Samsung Electronics Co., Ltd. and Subsidiaries**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(In millions of Korean won)

2012

| <b>Investee</b>                           | Samsung Card <sup>1</sup> | Samsung<br>Electro-<br>Mechanics | Samsung SDI | Samsung SDS | Samsung<br>Techwin |
|---|---------------------------|----------------------------------|-------------|-------------|--------------------|
| <b>1. Condensed financial information</b> |                           |                                  |             |             |                    |
| Current assets                            | ₩ 16,287,816              | ₩ 2,631,235                      | ₩ 2,414,856 | ₩ 2,283,331 | ₩ 1,386,237        |
| Non-current assets                        |                           | 4,260,230                        | 8,480,231   | 2,182,077   | 1,854,702          |
| Current liabilities                       | 10,357,253                | 1,959,072                        | 2,004,041   | 1,067,256   | 1,019,550          |
| Non-current liabilities                   |                           | 966,744                          | 1,326,564   | 153,211     | 643,713            |
| Non-controlling interests                 | -                         | 71,252                           | 191,257     | 60,909      | 2,094              |
| Revenue                                   | 3,817,670                 | 7,912,830                        | 5,771,185   | 6,105,858   | 2,934,702          |

**2. Details of adjustments from the book value of investments in associates**

|                                       |           |           |           |           |           |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Net assets (a)                        | 5,930,563 | 3,894,397 | 7,373,225 | 3,184,032 | 1,575,582 |
| Ownership percentage <sup>2</sup> (b) | 37.5%     | 22.8%     | 19.7%     | 21.7%     | 25.5%     |
| Net assets of equity shares (a x b)   | 2,221,201 | 887,933   | 1,450,811 | 689,874   | 401,146   |
| Goodwill                              | 17,181    | -         | -         | 19,597    | -         |
| Intercompany transactions, etc.       | (309)     | 2,527     | (276,628) | (7,663)   | (40,407)  |
| Book value of associates              | 2,238,073 | 890,460   | 1,174,183 | 701,808   | 360,739   |

**3. Dividends from associates**

|           |          |          |          |         |         |
|-----------|----------|----------|----------|---------|---------|
| Dividends | ₩ 30,375 | ₩ 13,270 | ₩ 13,924 | ₩ 3,914 | ₩ 6,763 |
|-----------|----------|----------|----------|---------|---------|

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

<sup>2</sup> Ownership percentage includes common and preferred stocks

(In millions of Korean won)

2012

| <b>Investee</b>   | Samsung<br>Card | Samsung<br>Electro-<br>Mechanics | Samsung<br>SDI | Samsung<br>SDS | Samsung<br>Techwin | Others     |
|---|-----------------|----------------------------------|----------------|----------------|--------------------|------------|
| Profit (loss) from continuing operations <sup>1</sup>     | ₩ 749,875       | ₩ 411,299                        | ₩1,471,502     | ₩ 395,805      | ₩ 131,030          | ₩ (84,072) |
| Post-tax profit from discontinued operations <sup>1</sup> | -               | 29,503                           | -              | -              | -                  | -          |
| Other comprehensive income (loss) <sup>1</sup>            | (570,471)       | 1,009                            | (150,859)      | (34,303)       | (118,743)          | (34,316)   |
| Total comprehensive income (loss) <sup>1</sup>            | ₩ 179,404       | ₩ 441,811                        | ₩1,320,643     | ₩ 361,502      | ₩ 12,287           | ₩(118,388) |

<sup>1</sup> Profit attributable to owners of the parent

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (2) Summary of condensed financial information of major joint ventures, details of adjustments from the book value of investments in joint ventures, and dividends from joint ventures as of and for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>  | <b>2013</b>                       |         | <b>2012</b>                            |           |                                   |
|---|-----------------------------------|---------|--|-----------|-----------------------------------|
| <b>Investee</b>   | Samsung Corning<br>Advanced Glass |         | Samsung Corning<br>Precision Materials |           | Samsung Corning<br>Advanced Glass |
| <b>1. Condensed financial information</b>   |                                   |         |  |           |                                   |
| Current assets  | ₩                                 | 171,353 | ₩                                      | 3,429,581 | ₩ 187,684                         |
| - Cash and cash equivalent  |                                   | 64,113  |  | 1,707,998 | 10,887                            |
| Non-current assets  |                                   | 95,310  |  | 3,731,710 | 51,669                            |
| Current liabilities   |                                   | 42,674  |  | 431,475   | 10,702                            |
| - Current financial liabilities <sup>1</sup>  |                                   | 40,575  |  | 148,492   | 10,393                            |
| Non-current liabilities   |                                   | 67      |  | 80,507    | 103                               |
| Non-controlling interests   |                                   | -       |  | 8,442     | -                                 |
| Revenue   |                                   | 68,803  |  | 3,245,243 | 30,288                            |
| Depreciation and amortization   |                                   | 283     |  | 390,091   | 35                                |
| Interest income   |                                   | 4,618   |  | 109,710   | 4,600                             |
| Income tax expense  |                                   | (567)   |  | 299,996   | (178)                             |
| <b>2. Details of adjustments from the book value of investments in joint ventures</b> |                                   |         |  |           |                                   |
| Net assets (a)  |                                   | 223,922 |  | 6,640,867 | 228,548                           |
| Ownership percentage <sup>2</sup> (b)   |                                   | 50.0%   |  | 42.5%     | 50.0%                             |
| Net assets of equity shares (a x b)   |                                   | 111,961 |  | 2,825,104 | 114,274                           |
| Intercompany transactions, etc. <sup>3</sup>  |                                   | -       |  | (30,487)  | -                                 |
| Book value of joint ventures  |                                   | 111,961 |  | 2,794,617 | 114,274                           |
| <b>3. Dividends from joint ventures</b>   |                                   |         |  |           |                                   |
| Dividends   | ₩                                 | -       | ₩                                      | 927,984   | ₩ -                               |

<sup>1</sup> Account payables, other payables, provisions are excluded

<sup>2</sup> Ownership percentage includes common and preferred stocks

<sup>3</sup> Consist of unrealized gains and losses, and other differences

| <i>(In millions of Korean won)</i>                    | <b>2013</b>                             |         |             | <b>2012</b>                             |           |             |
|---|---|---------|-------------|---|-----------|-------------|
| <b>Investee</b>                                       | Samsung<br>Corning<br>Advanced<br>Glass |         | Others      | Samsung<br>Corning<br>Advanced<br>Glass |           | Others      |
| Profit (loss) from continuing operations <sup>1</sup> | ₩                                       | (4,604) | ₩ (166,310) | ₩ 1,353,460                             | ₩ (1,452) | ₩ (129,202) |
| Other comprehensive income (loss) <sup>1</sup>        |   | (21)    | (1,942)     | (9,536)                                 | -         | (12,901)    |
| Total comprehensive income (loss) <sup>1</sup>        | ₩                                       | (4,625) | ₩ (168,252) | ₩ 1,343,924                             | ₩ (1,452) | ₩ (142,103) |

<sup>1</sup> Profit attributable to owners of the parent

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(F) Fair value of marketable investments in associates as of December 31, 2013 and 2012, is as follows:

| <i>(In millions of Korean won and<br/>number of shares)</i> | 2013                  |              | 2012         |
|---|-----------------------|--------------|--------------|
|   | Number of shares held | Market value | Market value |
| Samsung SDI   | 9,282,753             | ₩ 1,503,806  | ₩ 1,401,696  |
| Samsung Electro-Mechanics                                   | 17,693,084            | 1,291,595    | 1,755,154    |
| Samsung Card  | 43,393,170            | 1,622,905    | 1,583,851    |
| Samsung Techwin   | 13,526,935            | ₩ 735,865    | ₩ 807,558    |

### 13. Property, Plant and Equipment

(A) Changes in property, plant and equipment for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>                    | 2013        |                             |                               |                             |             |              |
|---|-------------|-----------------------------|-------------------------------|-----------------------------|-------------|--------------|
|   | Land        | Buildings and<br>Structures | Machinery<br>and<br>Equipment | Construction<br>In Progress | Others      | Total        |
| Balance as of January 1                               | ₩ 7,152,141 | ₩ 13,008,839                | ₩ 38,046,176                  | ₩ 8,492,885                 | ₩ 1,784,702 | ₩ 68,484,743 |
| Acquisition cost                                      | 7,152,141   | 19,624,030                  | 110,034,355                   | 8,492,885                   | 5,011,914   | 150,315,325  |
| Accumulated depreciation<br>and impairment            | -           | (6,615,191)                 | (71,988,179)                  | -                           | (3,227,212) | (81,830,582) |
| Acquisitions and capital<br>expenditures <sup>1</sup> | 322,433     | 4,209,093                   | 12,627,962                    | 5,362,760                   | 1,237,317   | 23,759,565   |
| Business combinations                                 | -           | 31                          | 877                           | -                           | 144         | 1,052        |
| Depreciation  | -           | (1,146,000)                 | (13,473,515)                  | -                           | (850,497)   | (15,470,012) |
| Sales/disposals                                       | (29,572)    | (30,850)                    | (320,296)                     | (50,930)                    | (60,143)    | (491,791)    |
| Impairment  | -           | (78)                        | (145,263)                     | -                           | (175)       | (145,516)    |
| Others <sup>2</sup>                                   | (15,715)    | (325,971)                   | (237,463)                     | 35,457                      | (97,961)    | (641,653)    |
| Balance as of December 31                             | ₩ 7,429,287 | ₩ 15,715,064                | ₩ 36,498,478                  | ₩ 13,840,172                | ₩ 2,013,387 | ₩ 75,496,388 |
| Acquisition cost                                      | 7,429,287   | 23,375,035                  | 118,621,699                   | 13,840,172                  | 5,518,351   | 168,784,544  |
| Accumulated depreciation<br>and impairment            | -           | (7,659,971)                 | (82,123,221)                  | -                           | (3,504,964) | (93,288,156) |

<sup>1</sup> The capitalized borrowing costs are ₩52,039 million and the interest rate used to calculate the borrowing costs eligible for capitalization is 1.73%.

<sup>2</sup> Others include effects of changes in foreign currency exchange rates.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**2012**

| <i>(In millions of Korean won)</i>                 | <b>Land</b> | <b>Buildings and Structures</b> | <b>Machinery and Equipment</b> | <b>Construction In Progress</b> | <b>Others</b> | <b>Total</b> |
|--|-------------|---------------------------------|--------------------------------|---------------------------------|---------------|--------------|
| Balance as of January 1                            | ₩ 7,214,734 | ₩ 12,778,760                    | ₩ 33,453,220                   | ₩ 6,982,473                     | ₩ 1,614,764   | ₩ 62,043,951 |
| Acquisition cost                                   | 7,214,734   | 18,472,852                      | 96,618,176                     | 6,982,473                       | 4,683,845     | 133,972,080  |
| Accumulated depreciation and impairment            | -           | (5,694,092)                     | (63,164,956)                   | -                               | (3,069,081)   | (71,928,129) |
| Acquisitions and capital expenditures <sup>1</sup> | 54,960      | 1,681,106                       | 18,302,895                     | 1,854,111                       | 956,723       | 22,849,795   |
| Business combinations                              | -           | -                               | 654,490                        | 21,612                          | 29,007        | 705,109      |
| Depreciation                                       | -           | (1,121,614)                     | (12,895,133)                   | -                               | (818,299)     | (14,835,046) |
| Sales/disposals                                    | (76,724)    | (100,854)                       | (604,989)                      | (22,213)                        | (114,292)     | (919,072)    |
| Impairment   | -           | (3,992)                         | (211,299)                      | -                               | (34)          | (215,325)    |
| Others <sup>2</sup>                                | (40,829)    | (224,567)                       | (653,008)                      | (343,098)                       | 116,833       | (1,144,669)  |
| Balance as of December 31                          | ₩ 7,152,141 | ₩ 13,008,839                    | ₩ 38,046,176                   | ₩ 8,492,885                     | ₩ 1,784,702   | ₩ 68,484,743 |
| Acquisition cost                                   | 7,152,141   | 19,624,030                      | 110,034,355                    | 8,492,885                       | 5,011,914     | 150,315,325  |
| Accumulated depreciation and impairment            | -           | (6,615,191)                     | (71,988,179)                   | -                               | (3,227,212)   | (81,830,582) |

<sup>1</sup> The capitalized borrowing costs are ₩36,129 million and the interest rate used to calculate the borrowing costs eligible for capitalization is 2.50%.

<sup>2</sup> Others include effects of changes in foreign currency exchange rates.

(B) Details of depreciation of property, plant and equipment by line item for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>        | <b>2013</b>  | <b>2012</b>  |
|---|--------------|--------------|
| Cost of sales                             | ₩ 14,053,512 | ₩ 13,666,700 |
| Selling and administrative expenses, etc. | 1,416,500    | 1,168,346    |
|   | ₩ 15,470,012 | ₩ 14,835,046 |

**Samsung Electronics Co., Ltd. and Subsidiaries**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**14. Intangible Assets**

(A) Changes in intangible assets for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i> | <b>2013</b>                                 |                             |                   |                 |               |              |
|------------------------------------|---|-----------------------------|-------------------|-----------------|---------------|--------------|
|                                    | <b>Intellectual<br/>property<br/>rights</b> | <b>Capitalized<br/>cost</b> | <b>Membership</b> | <b>Goodwill</b> | <b>Others</b> | <b>Total</b> |
| Balance as of January 1            | ₩ 1,186,033                                 | ₩ 602,274                   | ₩ 170,843         | ₩ 573,845       | ₩ 1,196,710   | ₩ 3,729,705  |
| Internally generated               |   |                             |                   |                 |               |              |
| (development costs)                | -   | 461,030                     | -                 | -               | -             | 461,030      |
| External acquisitions              | 284,392                                     | -                           | 7,203             | -               | 182,118       | 473,713      |
| Business combinations              | 49,046                                      | -                           | -                 | 115,331         | 2,176         | 166,553      |
| Amortization                       | (200,452)                                   | (310,635)                   | -                 | -               | (464,314)     | (975,401)    |
| Sales/disposals                    | (44,633)                                    | -                           | (572)             | (24,651)        | (4,125)       | (73,981)     |
| Impairment                         | (1,753)                                     | -                           | -                 | (99,643)        | (7,024)       | (108,420)    |
| Others <sup>1</sup>                | (40,960)                                    | -                           | 58                | (4,348)         | 352,651       | 307,401      |
| Balance as of December 31          | ₩ 1,231,673                                 | ₩ 752,669                   | ₩ 177,532         | ₩ 560,534       | ₩ 1,258,192   | ₩ 3,980,600  |

<sup>1</sup> Others include effects of changes in foreign currency exchange rates.

| <i>(In millions of Korean won)</i> | <b>2012</b>                                 |                             |                   |                 |               |              |
|------------------------------------|---|-----------------------------|-------------------|-----------------|---------------|--------------|
|                                    | <b>Intellectual<br/>property<br/>rights</b> | <b>Capitalized<br/>cost</b> | <b>Membership</b> | <b>Goodwill</b> | <b>Others</b> | <b>Total</b> |
| Balance as of January 1            | ₩ 983,802                                   | ₩ 473,024                   | ₩ 197,957         | ₩ 523,409       | ₩ 1,177,044   | ₩ 3,355,236  |
| Internally generated               |   |                             |                   |                 |               |              |
| (development costs)                | -   | 359,639                     | -                 | -               | -             | 359,639      |
| External acquisitions              | 227,538                                     | -                           | 9,520             | -               | 64,832        | 301,890      |
| Business combinations              | 163,164                                     | -                           | 3,670             | 259,961         | 71,917        | 498,712      |
| Amortization                       | (169,668)                                   | (229,186)                   | -                 | -               | (388,116)     | (786,970)    |
| Sales/disposals                    | (13,123)                                    | -                           | (39,095)          | -               | (980)         | (53,198)     |
| Impairment                         | (124)                                       | (1,203)                     | -                 | (204,746)       | (10,717)      | (216,790)    |
| Others <sup>1</sup>                | (5,556)                                     | -                           | (1,209)           | (4,779)         | 282,730       | 271,186      |
| Balance as of December 31          | ₩ 1,186,033                                 | ₩ 602,274                   | ₩ 170,843         | ₩ 573,845       | ₩ 1,196,710   | ₩ 3,729,705  |

<sup>1</sup> Others include effects of changes in foreign currency exchange rates.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (B) Goodwill

Goodwill is allocated to cash-generating units at the end of the reporting period, and consists of the following:

| <i>(In millions of Korean won)</i> | <b>2013</b>      | <b>2012</b>      |
|------------------------------------|------------------|------------------|
| S. LSI business                    | ₩ 109,120        | ₩ 112,723        |
| Memory business                    | 74,418           | 74,995           |
| Health Care Equipment business     | 199,758          | 89,258           |
| Digital Imaging business           | -                | 82,599           |
| LCD business                       | 80,299           | 80,299           |
| LED business                       | 79,277           | 79,277           |
| Others                             | 17,662           | 54,694           |
| <b>Total</b>                       | <b>₩ 560,534</b> | <b>₩ 573,845</b> |

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 business. In addition, a constant growth rate assumption is used for perpetual cash flow calculation.

Pursuant to the results of the goodwill impairment reviews performed, the Company recognized an impairment of goodwill for the Digital Imaging business. The major assumptions used in calculating the value in use are as follows:

| <b>Samsung Digital Imaging</b>     | <b>2013</b> | <b>2012</b> |
|------------------------------------|-------------|-------------|
| Sales growth rate <sup>1</sup>     | 0.2         | 6.7         |
| Perpetual growth rate <sup>2</sup> | (4.1)       | (2.4)       |
| Pre-tax discount rate <sup>3</sup> | 13.0        | 15.6        |

<sup>1</sup> Future cash flows for 5 years are projected based on previous growth rate and the industry estimates.

<sup>2</sup> The projected growth rate beyond five years is consistent with industry estimates.

<sup>3</sup> Pre-tax discount rate applied to the cash flow projections

Sales growth rate was determined on the basis of past performance and expectations of market fluctuations. The discount rate reflects the special risk related to the division.

The carrying value of Samsung Digital Imaging exceeded the value in use by ₩82,599 million in 2013 and ₩204,600 million in 2012 and the amounts have been recognized as the other non-operating expenses in the consolidated statements of income.

## Samsung Electronics Co., Ltd. and Subsidiaries

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(C) Details of amortization of intangible assets by line item for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>        | <b>2013</b>      | <b>2012</b>      |
|---|------------------|------------------|
| Cost of sales                             | ₩ 418,447        | ₩ 327,869        |
| Selling and administrative expenses, etc. | 556,954          | 459,101          |
| <b>Total</b>                              | <b>₩ 975,401</b> | <b>₩ 786,970</b> |

#### 15. Borrowings

(A) Details of the carrying amounts of borrowings as of December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>             | <b>Financial Institutions</b> | <b>Annual Interest Rates (%)<br/>as of December 31, 2013</b> | <b>2013</b>        | <b>2012</b>        |
|--|-------------------------------|--|--------------------|--------------------|
| <b>Short-term borrowings</b>                   |                               |  |                    |                    |
| Collateralized borrowings <sup>1</sup>         | Woori Bank, etc.              | 0.6 ~ 11.7   | ₩ 3,256,935        | ₩ 4,328,503        |
| Non-collateralized borrowings                  | Citi Bank, etc.               | 0.6 ~ 19.0   | 3,181,582          | 4,115,249          |
| <b>Total</b>                                   |                               |  | <b>₩ 6,438,517</b> | <b>₩ 8,443,752</b> |
| <b>Current portion of long-term borrowings</b> |                               |  |                    |                    |
| Bank borrowings                                | SMBC, etc.                    | 1.3 ~ 7.4  | ₩ 1,900,937        | ₩ 480,567          |
| Financial lease liabilities <sup>2</sup>       | CSSD, etc.                    | 1.1 ~ 15.7   | 19,811             | 13,293             |
| <b>Total</b>                                   |                               |  | <b>₩ 1,920,748</b> | <b>₩ 493,860</b>   |
| <b>Long-term borrowings</b>                    |                               |  |                    |                    |
| Bank borrowings                                | SMBC, etc.                    | 0.7 ~ 5.3  | ₩ 902,715          | ₩ 3,521,257        |
| Financial lease liabilities <sup>2</sup>       | CSSD, etc.                    | 1.1 ~ 15.7   | 82,402             | 101,771            |
| <b>Total</b>                                   |                               |  | <b>₩ 985,117</b>   | <b>₩ 3,623,028</b> |

<sup>1</sup> Collateralized borrowings are secured by trade receivables (Note 8).

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

(B) Maturities of long-term borrowings outstanding as of December 31, 2013, are as follows:

| <i>(In millions of Korean won)</i>      | <b>Long-term borrowings</b> |
|---|-----------------------------|
| <b>For the Years Ending December 31</b> |                             |
| 2014                                    | ₩ 1,920,748                 |
| 2015                                    | 356,455                     |
| 2016                                    | 559,624                     |
| 2017                                    | 7,248                       |
| 2018 and thereafter                     | 61,790                      |
| <b>Total</b>                            | <b>₩ 2,905,865</b>          |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 16. Debentures

Details of carrying amount of debentures as of December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>          | <b>2013</b>        | <b>2012</b>        |
|---|--------------------|--------------------|
| Korean won denominated debentures (A)       | ₩ 198,566          | ₩ 697,822          |
| Foreign currency denominated debentures (B) | 1,112,502          | 1,131,552          |
| <b>Total</b>                                | <b>₩ 1,311,068</b> | <b>₩ 1,829,374</b> |

(A) Details of Korean won denominated debentures as of December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i> | <b>Issue Date</b> | <b>Due Date</b> | <b>Annual Interest Rates (%)<br/>as of December 31, 2013</b> | <b>2013</b>    | <b>2012</b>    |
|------------------------------------|-------------------|-----------------|--|----------------|----------------|
| Unsecured debentures               | 2010.6.17         | 2013.6.17       | -  | -              | 500,000        |
| Unsecured debentures               | 2011.11.17        | 2014.11.17      | 4.1  | 500,000        | 500,000        |
| Unsecured debentures               | 2011.11.17        | 2016.11.17      | 4.2  | 200,000        | 200,000        |
| Less: Current portion              |                   |                 |  | (500,000)      | (500,000)      |
| Less: Discounts                    |                   |                 |  | (1,434)        | (2,178)        |
| <b>Total</b>                       |                   |                 |  | <b>198,566</b> | <b>697,822</b> |

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

(B) Details of foreign currency denominated debentures as of December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>                 | <b>Issue Date</b> | <b>Due Date</b> | <b>Annual Interest Rates (%)<br/>as of December 31, 2013</b> | <b>2013</b>                       | <b>2012</b>                      |
|--|-------------------|-----------------|--|-----------------------------------|----------------------------------|
| US dollar denominated straight bonds <sup>1</sup>  | 1997.10.2         | 2027.10.1       | 7.7  | ₩ 73,871<br>(US\$70 million)      | ₩ 80,333<br>(US\$75 million)     |
| US dollar denominated unsecured bonds <sup>2</sup> | 2012.4.10         | 2017.4.10       | 1.8  | 1,055,300<br>(US\$ 1,000 million) | 1,071,100<br>(US\$1,000 million) |
| Less: Current portion                              |                   |                 |  | (5,277)                           | (5,356)                          |
| Less: Discounts                                    |                   |                 |  | (11,392)                          | (14,525)                         |
| <b>Total</b>                                       |                   |                 |  | <b>₩ 1,112,502</b>                | <b>₩ 1,131,552</b>               |

<sup>1</sup> 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.

<sup>2</sup> 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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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(C) Maturities of debentures outstanding as of December 31, 2013 are as follows:

*(In millions of Korean won)*

| <b>For the Years Ending December 31</b> | <b>Debentures</b> |                  |
|---|-------------------|------------------|
| 2014                                    | ₩                 | 505,277          |
| 2015                                    |                   | 5,277            |
| 2016                                    |                   | 205,277          |
| 2017                                    |                   | 1,060,577        |
| 2018 and thereafter                     |                   | 52,763           |
| <b>Total</b>                            | ₩                 | <b>1,829,171</b> |

**17. Net Defined Benefit Liabilities**

(A) Details of net defined benefit liabilities recognized on the statements of financial position as of December 31, 2013 and 2012, are as follows:

*(In millions of Korean won)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Present value of funded defined benefit obligations   | ₩ 5,672,147 | ₩ 4,593,284 |
| Present value of unfunded defined benefit obligations | 55,931      | 76,183      |
| Subtotal  | 5,728,078   | 4,669,467   |
| Fair value of plan assets                             | (3,873,176) | (2,939,528) |
| <b>Total</b>  | ₩ 1,854,902 | ₩ 1,729,939 |

(B) The amounts recognized in the statements of income for the years ended December 31, 2013 and 2012, are as follows:

*(In millions of Korean won)*

|                      | <b>2013</b> | <b>2012</b> |
|----------------------|-------------|-------------|
| Current service cost | ₩ 836,916   | ₩ 670,123   |
| Interest cost        | 82,487      | 58,591      |
| Others               | 8,164       | 8,033       |
|                      | ₩ 927,567   | ₩ 736,747   |

(C) The amounts recognized as cost of defined contribution plan for the years ended December 31, 2013 and 2012, are ₩44,430 million and ₩31,676 million, respectively.

(D) The pension expenses related to defined benefit plans by line item recognized on the statements of income for the years ended December 31, 2013 and 2012, are as follows:

*(In millions of Korean won)*

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Cost of sales                             | ₩ 376,588   | ₩ 291,355   |
| Selling and administrative expenses, etc. | 550,979     | 445,392     |
|   | ₩ 927,567   | ₩ 736,747   |

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(E) Changes in the defined benefit obligations for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>  | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| <b>Balance as of January 1</b>  | ₩ 4,669,467 | ₩ 3,542,340 |
| Current service cost  | 836,916     | 670,123     |
| Interest cost   | 226,271     | 194,625     |
| Remeasurement:  |             |             |
| Actuarial gains or losses arising from changes in demographic assumptions | (38)        | 81,587      |
| Actuarial gains or losses arising from changes in financial assumptions   | (22,870)    | 473,488     |
| Others  | 257,724     | 55,396      |
| Benefits paid   | (244,186)   | (301,444)   |
| Foreign exchange differences  | (18,128)    | (22,028)    |
| Others  | 22,922      | (24,620)    |
| <b>Balance as of December 31</b>  | ₩ 5,728,078 | ₩ 4,669,467 |

(F) Changes in the fair value of plan assets for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>  | <b>2013</b> | <b>2012</b> |
|-------------------------------------|-------------|-------------|
| <b>Balance as of January 1</b>      | ₩ 2,939,528 | ₩ 2,423,152 |
| Expected return on plan assets      | 143,784     | 136,034     |
| Remeasurement factor of plan assets | (37,343)    | (47,333)    |
| Contributions by the employer       | 978,313     | 595,420     |
| Benefits paid                       | (141,017)   | (155,000)   |
| Foreign exchange differences        | (3,035)     | (8,812)     |
| Others                              | (7,054)     | (3,933)     |
| <b>Balance as of December 31</b>    | ₩ 3,873,176 | ₩ 2,939,528 |

Expected contributions to post-employment benefit plans for the year ending December 31, 2014, are ₩1,176,458 million.

(G) Plan assets as of December 31, 2013 and 2012, consist of as follows:

| <i>(In millions of Korean won)</i> | <b>2013</b> | <b>2012</b> |
|------------------------------------|-------------|-------------|
| Equity instruments                 | ₩ -         | ₩ 59,988    |
| Debt instruments                   | 3,851,102   | 2,859,415   |
| Others                             | 22,074      | 20,125      |
|                                    | ₩ 3,873,176 | ₩ 2,939,528 |

<sup>1</sup> Plan assets are mostly invested in instruments which have a quoted price in active market.

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(H) The principal actuarial assumptions as of December 31, 2013 and 2012, are as follows:

| <i>(In %)</i>      | <b>2013</b> | <b>2012</b> |
|--------------------|-------------|-------------|
| Discount rate      | 1.0 ~ 7.0   | 3.7 ~ 7.0   |
| Salary growth rate | 1.7 ~ 6.6   | 2.5 ~ 9.0   |

(I) The sensitivity of the defined benefit obligations as of December 31, 2013, to changes in the weighted principal assumptions is:

|                    | <b>Rate of change</b> |
|--------------------|-----------------------|
| Discount rate      |                       |
| 1% increases       | 90%                   |
| 1% decreases       | 112%                  |
| Salary growth rate |                       |
| 1% increases       | 112%                  |
| 1% decreases       | 90%                   |

(J) The actual returns on plan assets for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i> | <b>2013</b> | <b>2012</b> |
|------------------------------------|-------------|-------------|
| Actual return on plan assets       | ₩ 106,441   | ₩ 88,701    |

(K) Expected maturity analysis of undiscounted pension benefits as of December 31, 2013, is as follows:

| <i>(In millions of Korean won)</i> | Less than 1 year | Between 1 and 2<br>years | Between 2 and 5<br>years | Between 5 and 10<br>years | Total       |
|------------------------------------|------------------|--------------------------|--------------------------|---------------------------|-------------|
| Pension benefits                   | ₩ 307,533        | ₩ 318,113                | ₩ 1,253,532              | ₩ 3,507,267               | ₩ 5,386,445 |

The weighted average duration of the defined benefit obligations is 11.00 years.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 18. Provisions

Changes in the provisions for the year ended December 31, 2013, are as follows:

| <i>(In millions of Korean won)</i>               | Warranty (A) | Royalty expenses<br>(B) | Long-term<br>incentives (C) | Others   | Total       |
|--|--------------|-------------------------|-----------------------------|----------|-------------|
| Balance as of January 1                          | ₩ 2,032,817  | ₩ 2,773,196             | ₩ 576,329                   | ₩ 81,040 | ₩ 5,463,382 |
| Charged (credited) to the<br>statement of income | 2,076,633    | 1,854,900               | 498,483                     | (6,862)  | 4,423,154   |
| Payment  | (2,104,019)  | (278,961)               | (152,964)                   | (16,636) | (2,552,580) |
| Others <sup>1</sup>                              | (59,439)     | (76,465)                | -                           | (652)    | (136,556)   |
| Balance as of December 31                        | ₩ 1,945,992  | ₩ 4,272,670             | ₩ 921,848                   | ₩ 56,890 | ₩ 7,197,400 |

<sup>1</sup> Others include effects of changes in foreign currency exchange rates.

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

#### 19. Commitments and Contingencies

- (A) Guarantees

| <i>(In millions of Korean won)</i>                 | 2013      | 2012      |
|--|-----------|-----------|
| Guarantees of debt for housing rental <sup>1</sup> | ₩ 151,985 | ₩ 151,817 |

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

In addition to the guarantees described above, the Company provides guarantees for borrowings by Intellectual Keystone Technology (IKT), the Company's associate, to Citibank in the amount of ₩ 31,659 million (USD 30 million).

As of December 31, 2013, the Company's investments in Pusan Newport are pledged as collateral against the investee's debt (Note 9).

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (B) Lease

The Company leases certain property, plant and equipment under various finance lease arrangements. Assets recorded under finance lease agreements are included in property, plant and equipment with a net book value of ₩110,655 million (2012: ₩121,402 million). Depreciation expense for the finance lease assets amounted to ₩10,587 million for the year ended December 31, 2013 (2012: ₩9,650 million).

The minimum lease payments under finance lease agreements and their present value as of December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i> | 2013                      |                   | 2012                      |                   |
|------------------------------------|---------------------------|-------------------|---------------------------|-------------------|
|                                    | Minimum Lease<br>payments | Present<br>values | Minimum Lease<br>payments | Present<br>values |
| Within one year                    | ₩ 27,893                  | ₩ 19,811          | ₩ 21,399                  | ₩ 13,293          |
| From one year to five years        | 57,508                    | 28,213            | 70,310                    | 40,216            |
| More than five years               | 95,192                    | 54,189            | 108,865                   | 61,555            |
| Total                              | ₩ 180,593                 | ₩ 102,213         | ₩ 200,574                 | ₩ 115,064         |
| Present value adjustment           | (78,380)                  |                   | (85,510)                  |                   |
| Finance lease payables             | ₩ 102,213                 |                   | ₩ 115,064                 |                   |

#### (C) Litigation

- (1) Based on the agreement entered on August 24, 1999 with respect to Samsung Motor Inc.'s ("SMI") bankruptcy proceedings, SMI's creditors (the "Creditors") filed a civil action against Mr. Kun Hee Lee, chairman of the Company, and 28 Samsung Group affiliates including the Company under joint and several liability for failing to comply with such agreement. Under the suit, the Creditors have sought ₩2,450 billion (approximately USD 2.32 billion) for loss of principal on loans extended to SMI, a separate amount for breach of the agreement, and an amount for default interest. During the course of Samsung Life Insurance's ("SLI") Initial Public Offering ("IPO"), its shares owned by the Creditors were disposed of, and the part of proceeds exceeding the par value of ₩70,000 was deposited into an escrow account (₩877.6 billion, approximately USD 0.83 billion). Most of the claims with regards to the lawsuit have been withdrawn. On January 11, 2011, the Seoul High Court ordered Samsung Group affiliates to pay to the Creditors ₩600 billion (approximately USD 0.57 billion) and penalties due to delay. In accordance with the Seoul High Court order, ₩620.4 billion (which includes penalties and interest owed) was paid to the Creditors from the funds held in escrow during January 2011. The Samsung Group affiliates and the Creditors appealed the Seoul High Court's ruling to the Korean Supreme Court and the appeal is currently in progress.
- (2) The litigation with Apple Inc. in multiple regions including the USA is ongoing as of the reporting date. Regarding the ongoing lawsuit in the USA, on August 24, 2012, the jury determined that the Company partially infringed Apple's design and utility patent and should pay damages to Apple. On March 1, 2013, however, the Judge ordered a new trial for a certain portion of the damages, ruling that it was originally miscalculated. As of the reporting date, the first appeal is still ongoing regarding the jury's verdict on November 21, 2013. The final conclusion and the effect of the patent lawsuits with Apple are uncertain as of the reporting date.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(D) Other commitments

As of December 31, 2013, the Company has a trade financing agreement, trade notes receivable discounting facilities, and loan facilities with accounts receivable pledged as collateral with 13 financial institutions, including Woori Bank, with a combined limit of up to ₩13,309,900 million.

In addition, the Company has a trade financing agreement with 19 financial institutions, including Korea Exchange Bank, for up to US\$3,723 million and ₩83,000 million, and has loan facilities with accounts receivable pledged as collateral with 6 financial institutions, including Industrial Bank of Korea, for up to ₩288,600 million.

Samsung Display has a facility loan agreement with 3 financial institutions including SMBC for up to JPY 60,700 million.

Two foreign subsidiaries including SEA have a contract for issuing ABS (Asset Backed Securities) backed by accounts receivable with BTMU and other financial institutions for up to US\$1,169 million and other 3 subsidiaries including SSDG have a credit facility agreement with Bank of China and other financial institutions for up to CNY 3,400 million and EUR 30 million.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 20. Share Capital

The Company's total number of authorized shares is 500,000,000 shares (₩5,000 per share). The Company has issued 147,299,337 shares of common stock and 22,833,427 shares of preferred stock as of December 31, 2013, excluding retired shares. Due to retirement of shares, the total par value of the shares issued is ₩850,664 million (common stock ₩736,497 million, preferred stock ₩114,167 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, 2013 and 2012, are as follows:

| <i>(In number of shares)</i>                                | Number of shares of |              |             |
|---|---------------------|--------------|-------------|
|   | Preferred stock     | Common stock | Total       |
| <b>Balance as of January 1, 2012</b>                        | 19,853,734          | 130,386,723  | 150,240,457 |
| Disposal of treasury stock through exercise of stock option | -                   | 191,309      | 191,309     |
| Other disposal of treasury stock                            | -                   | 269,867      | 269,867     |
| <b>Balance as of December 31, 2012</b>                      | 19,853,734          | 130,847,899  | 150,701,633 |
| Disposal of treasury stock through exercise of stock option | -                   | 67,222       | 67,222      |
| <b>Balance as of December 31, 2013</b>                      | 19,853,734          | 130,915,121  | 150,768,855 |

#### 21. Retained Earnings

Retained earnings as of December 31, 2013 and 2012, consist of:

| <i>(In millions of Korean won)</i> | 2013 |             | 2012 |             |
|------------------------------------|------|-------------|------|-------------|
| Appropriated, etc.                 | ₩    | 104,175,235 | ₩    | 87,915,275  |
| Unappropriated                     |      | 44,425,047  |      | 32,070,414  |
| Total                              | ₩    | 148,600,282 | ₩    | 119,985,689 |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 22. Dividends

The Company declared cash dividends to shareholders of common stock and preferred stock as interim dividends for the six-month periods ended June 30, 2013 and 2012, and as year-end dividends for the years ended December 31, 2013 and 2012.

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

##### (A) Interim dividends

| <i>(In millions of Korean won and number of shares)</i> |                 | <b>2013</b>        | <b>2012</b>        |
|---|-----------------|--------------------|--------------------|
| Number of shares eligible for dividends                 | Common stock    | 130,878,713 shares | 130,759,755 shares |
|   | Preferred stock | 19,853,734 shares  | 19,853,734 shares  |
| Dividend rate   |                 | 10%                | 10%                |
| Dividend amount   | Common stock    | ₩ 65,439           | ₩ 65,380           |
|   | Preferred stock | 9,927              | 9,927              |
| Total   |                 | ₩ 75,366           | ₩ 75,307           |

##### (B) Year-end dividends

| <i>(In millions of Korean won and number of shares)</i> |                 | <b>2013</b>        | <b>2012</b>        |
|---|-----------------|--------------------|--------------------|
| Number of shares eligible for dividends                 | Common stock    | 130,915,121 shares | 130,847,899 shares |
|   | Preferred stock | 19,853,734 shares  | 19,853,734 shares  |
| Dividend rate   | Common stock    | 276%               | 150%               |
|   | Preferred stock | 277%               | 151%               |
| Dividend amount   | Common stock    | ₩ 1,806,629        | ₩ 981,359          |
|   | Preferred stock | 274,974            | 149,896            |
| Total   |                 | ₩ 2,081,603        | ₩ 1,131,255        |

##### (C) Dividend payout ratio

|                       | <b>2013</b> | <b>2012</b> |
|-----------------------|-------------|-------------|
| Dividend payout ratio | 7.2%        | 5.2%        |

##### (D) Dividend yield ratio

|                                   | <b>2013</b>  |                 | <b>2012</b>  |                 |
|-----------------------------------|--------------|-----------------|--------------|-----------------|
|                                   | Common Stock | Preferred Stock | Common Stock | Preferred Stock |
| Dividend yield ratio <sup>1</sup> | 1.0%         | 1.4%            | 0.5%         | 1.0%            |

<sup>1</sup> The average closing price for a week before 2 trading days prior to dividend date.



**Samsung Electronics Co., Ltd. and Subsidiaries**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**23. Other Components of Equity**

(A) Other components of equity as of December 31, 2013 and 2012, consist of:

| <i>(In millions of Korean won)</i>                                   | <b>2013</b>        | <b>2012</b>        |
|--|--------------------|--------------------|
| Treasury stock   | (7,323,432)        | (7,350,927)        |
| Stock options  | 10,243             | 22,242             |
| Unrealized gains on available-for-sale financial assets              | 2,189,013          | 2,001,536          |
| Share of other comprehensive income of associates and joint ventures | 741,893            | 720,944            |
| Foreign currency translation   | (3,610,654)        | (2,623,963)        |
| Remeasurement of net defined benefit liabilities                     | (1,302,588)        | (1,097,228)        |
| Others   | (163,548)          | 134,352            |
|  | <b>(9,459,073)</b> | <b>(8,193,044)</b> |

(B) Details of treasury stock as of December 31, 2013 and 2012, are as follows:

The Company repurchases registered common stock and non-voting preferred stock, and recognizes the repurchase amount in other components of equity. Such stock will be distributed upon exercise of stock options, etc.

| <i>(In millions of Korean won and<br/>number of shares)</i> | <b>2013</b>            |                     | <b>2012</b>         |                        |
|---|------------------------|---------------------|---------------------|------------------------|
|   | <b>Preferred Stock</b> | <b>Common Stock</b> | <b>Common Stock</b> | <b>Preferred Stock</b> |
| Number of shares  | 2,979,693 shares       | 16,384,216 shares   | 2,979,693 shares    | 16,451,438 shares      |
| Acquisition cost  | ₩ 621,843              | ₩ 6,701,589         | ₩ 621,843           | ₩ 6,729,084            |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 24. Share-Based Compensation

The Company has a stock option plan that provides for the granting of stock purchase options to employees or directors who have contributed or are expected to contribute to the management and technological innovation of the Company. No share-based compensation has been granted since December 20, 2005. All options currently issued are fully vested.

A summary of the terms and the number of outstanding stock options as of December 31, 2013 is as follows:

- Type of stock to be issued through stock options: registered common stock
- Granting method: Issuance of new common stock (use of treasury stock possible as well)
- Exercise conditions: 2 or more years of employee services from the date of the grant
- The number of shares and per-share exercise price of stock to be issued through stock options (after the exclusion of stock options expired due to termination, etc.)

|  | Date of the Grant    |                   |                  |                   |                      |
|--|----------------------|-------------------|------------------|-------------------|----------------------|
|  | February 28,<br>2002 | March 25,<br>2002 | March 7,<br>2003 | April 16,<br>2004 | December 20,<br>2005 |
| Granted  | 988,000              | 121,000           | 368,100          | 590,000           | 10,000               |
| Expired  | 53,859               | 12,942            | 37,744           | 53,061            | -                    |
| Exercised prior to December 31, 2012                             | 934,141              | 108,058           | 314,509          | 438,034           | 5,000                |
| Outstanding as of January 1, 2013                                | -                    | -                 | 15,847           | 98,905            | 5,000                |
| Exercised during 2013  | -                    | -                 | 15,847           | 51,375            | -                    |
| Outstanding as of December 31, 2013                              | -                    | -                 | -                | 47,530            | 5,000                |
| Exercise price   | ₩ 329,200            | ₩ 342,800         | ₩ 288,800        | ₩ 580,300         | ₩ 606,700            |
| Weighted average share price at the date of exercise during 2013 | -                    | -                 | ₩ 1,517,741      | ₩ 1,448,886       | -                    |
| Exercise period from the date of the grant                       | 2 - 10 years         | 2 - 10 years      | 2 - 10 years     | 2 - 10 years      | 2 - 10 years         |

Note 1: The number of shares and exercise prices are subject to adjustments resulting from capital increase with or without consideration, stock dividends, stock splits, stock consolidations, etc.

Note 2: As of reporting date, exercise periods of stock options granted on March 16, 2000, March 9, 2001, February 28, 2002, March 25, 2002, March 7, 2003, and October 15, 2004 have all expired, and all such options have been exercised.

## Samsung Electronics Co., Ltd. and Subsidiaries

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#### 25. Expenses by Nature

Expenses by nature for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i> | <b>2013</b>          | <b>2012</b>          |
|------------------------------------|----------------------|----------------------|
| Raw materials and goods            | ₩ 95,070,004         | ₩ 85,193,865         |
| Wages and salaries                 | 17,250,962           | 13,629,400           |
| Pension                            | 971,997              | 768,423              |
| Depreciation                       | 15,470,012           | 14,835,046           |
| Amortization                       | 975,401              | 786,970              |
| Welfare                            | 3,142,187            | 2,481,756            |
| Commission and service charges     | 9,124,803            | 6,961,701            |
| Other expenses                     | 49,902,288           | 47,397,114           |
| <b>Total<sup>1</sup></b>           | <b>₩ 191,907,654</b> | <b>₩ 172,054,275</b> |

<sup>1</sup> Expenses above equal to the sum of cost of sales, and selling and administrative expenses on the statements of income.

#### 26. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>            | <b>2013</b>         | <b>2012</b>         |
|---|---------------------|---------------------|
| <b>1) Selling and Administrative Expenses</b> |                     |                     |
| Wages and salaries                            | ₩ 5,559,339         | ₩ 4,032,848         |
| Pension                                       | 232,676             | 204,929             |
| Commission and service charges                | 9,124,803           | 6,961,701           |
| Depreciation                                  | 555,944             | 442,080             |
| Amortization                                  | 401,987             | 353,909             |
| Advertising                                   | 4,165,290           | 4,887,089           |
| Sales promotion                               | 8,019,462           | 6,055,105           |
| Transportation                                | 3,929,114           | 3,794,950           |
| Warranty                                      | 2,967,724           | 3,247,757           |
| Others  | 4,935,604           | 3,889,181           |
| <b>2) Research and development expenses</b>   |                     |                     |
| Total expenses                                | 14,780,432          | 11,892,434          |
| Capitalized expenses                          | (461,030)           | (359,639)           |
| <b>Total</b>                                  | <b>₩ 54,211,345</b> | <b>₩ 45,402,344</b> |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 27. Other Non-Operating Income and Expense

Details of other non-operating income for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>                | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Dividend income                                   | ₩ 112,159   | ₩ 106,181   |
| Rental income                                     | 104,608     | 98,462      |
| Gain on disposal of investments                   | 1,117,029   | 112,505     |
| Gain on disposal of property, plant and equipment | 110,638     | 147,645     |
| Others  | 985,117     | 1,088,196   |
|   | ₩ 2,429,551 | ₩ 1,552,989 |

Details of other non-operating expense for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>                | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Loss on disposal of property, plant and equipment | ₩ 187,863   | ₩ 324,993   |
| Donations   | 495,301     | 235,349     |
| Impairment losses on intangible assets            | 108,420     | 216,790     |
| Others  | 822,464     | 798,893     |
|   | ₩ 1,614,048 | ₩ 1,576,025 |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 28. Finance Income and Costs

Details of finance income and costs for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>                       | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| <b>Finance income</b>                                    |             |             |
| Interest income  |             |             |
| Interest income from loans and receivables               | ₩ 1,342,394 | ₩ 840,150   |
| Interest income from available-for-sale financial assets | 9,215       | 5,281       |
| Foreign exchange differences                             | 6,199,517   | 6,452,612   |
| Gains on valuation of derivatives                        | 65,787      | 27,719      |
| Gains on derivatives transaction                         | 397,759     | 510,792     |
|  | ₩ 8,014,672 | ₩ 7,836,554 |

| <i>(In millions of Korean won)</i>                                     | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| <b>Finance costs</b>   |             |             |
| Interest expense:  |             |             |
| Interest expense from financial liabilities measured at amortized cost | ₩ 319,342   | ₩ 277,512   |
| Other financial liabilities  | 190,316     | 321,494     |
| Foreign exchange differences   | 6,529,622   | 6,596,524   |
| Losses on valuation of derivatives                                     | 209,311     | 124,344     |
| Losses on derivatives transaction                                      | 506,381     | 614,576     |
|  | ₩ 7,754,972 | ₩ 7,934,450 |

The Company recognizes foreign exchange gains and losses arising from foreign currency transactions and translation as finance income and costs.

#### 29. Income Tax

(A) Income tax expense for the years ended December 31, 2013 and 2012, consists of:

| <i>(In millions of Korean won)</i>                | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Current taxes:                                    |             |             |
| Current tax on profits for the year               | ₩ 7,406,736 | ₩ 5,656,298 |
| Adjustments in respect of prior years             | 52,318      | 95,296      |
| Deferred taxes:                                   |             |             |
| Changes in the carryforward of unused tax credits | (52,085)    | 235,640     |
| Changes in temporary differences                  | 501,450     | 19,885      |
| Changes in the carryforward of unused tax losses  | 2,805       | (850)       |
| Others  | (10,490)    | 60,654      |
| Items charged directly to equity                  | (11,219)    | 2,809       |
| Income tax expense                                | ₩ 7,889,515 | ₩ 6,069,732 |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

| <i>(In millions of Korean won)</i>                                    | <b>2013</b>  | <b>2012</b>  |
|---|--------------|--------------|
| Income before tax   | ₩ 38,364,279 | ₩ 29,915,017 |
| Tax calculated at weighted average tax rates applicable <sup>1</sup>  | 9,576,241    | 7,664,722    |
| Tax effects of:   |              |              |
| Permanent differences   | (335,146)    | (161,762)    |
| Temporary differences for which no deferred income tax was recognized | 1,307        | (7,930)      |
| Tax credit  | (2,156,519)  | (1,980,710)  |
| Subsidiaries, associates and interests in joint ventures              | 318,359      | 650,000      |
| Impact of changes in tax rates  | 5,526        | (3,602)      |
| Others  | 479,747      | (90,986)     |
| Income tax expense  | ₩ 7,889,515  | ₩ 6,069,732  |
| Effective tax rate  | 20.56%       | 20.29%       |

<sup>1</sup> Weighted average statutory tax rates that are applied differently for the profits of the Company at each tax authority as of December 31, 2013 and 2012.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(C) Deferred income tax assets and liabilities resulting from the tax effect of temporary differences as of December 31, 2013 and 2012, are as follows:

(1) As of December 31, 2013

| <i>(In millions of Korean won)</i>                                      | Temporary Differences      |                        |                              | Deferred Income Tax Assets (Liabilities) |                        |                              |
|---|----------------------------|------------------------|------------------------------|--|------------------------|------------------------------|
|   | Balance as of<br>January 1 | Increase<br>(Decrease) | Balance as of<br>December 31 | Balance as of<br>January 1               | Increase<br>(Decrease) | Balance as of<br>December 31 |
| <b>Deferred tax arising from temporary differences</b>                  |                            |                        |                              |  |                        |                              |
| Special reserves appropriated for tax purposes                          | ₩ (33,097)                 | ₩ 5,312                | ₩ (27,785)                   | ₩ (8,010)                                | ₩ 1,286                | ₩ (6,724)                    |
| Revaluation of land   | (3,477,691)                | 1,587                  | (3,476,104)                  | (841,601)                                | 384                    | (841,217)                    |
| Investments in subsidiaries, associates and joint ventures <sup>1</sup> | (25,263,866)               | (2,555,796)            | (27,819,662)                 | (3,682,268)                              | (318,359)              | (4,000,627)                  |
| Depreciation  | 1,237,393                  | (402,647)              | 834,746                      | 193,344                                  | (57,968)               | 135,376                      |
| Accrued income  | (124,177)                  | (179,613)              | (303,790)                    | (28,163)                                 | (44,682)               | (72,845)                     |
| Provisions, accrued expenses and others                                 | 10,362,208                 | 1,983,485              | 12,345,693                   | 2,556,845                                | 596,301                | 3,153,146                    |
| Foreign currency translation  | (13,260)                   | (168,042)              | (181,302)                    | (5,967)                                  | (38,058)               | (44,025)                     |
| Asset impairment losses   | 90,656                     | 251,433                | 342,089                      | 16,524                                   | 65,375                 | 81,899                       |
| Assets held for sale  | -                          | 7,527,869              | 7,527,869                    | -  | 1,821,744              | 1,821,744                    |
| Others  | (894,234)                  | (10,818,680)           | (11,712,914)                 | (171,750)                                | (2,527,473)            | (2,699,223)                  |
| Subtotal  | ₩ (18,116,068)             | ₩ (4,355,092)          | ₩ (22,471,160)               | ₩ (1,971,046)                            | ₩ (501,450)            | ₩ (2,472,496)                |
| <b>Deferred tax arising from carryforwards</b>                          |                            |                        |                              |  |                        |                              |
| Unused tax losses   | ₩ 130,992                  | ₩ (23,764)             | ₩ 107,228                    | ₩ 27,811                                 | ₩ (2,805)              | ₩ 25,006                     |
| Unused tax credits  | 1,316,509                  | 25,141                 | 1,341,650                    | 1,260,107                                | 52,085                 | 1,312,192                    |
| <b>Deferred tax recognized in other comprehensive income</b>            |                            |                        |                              |  |                        |                              |
| Valuation of available-for-sale financial instruments                   | ₩ (2,581,628)              | ₩ (306,252)            | ₩ (2,887,880)                | ₩ (580,092)                              | ₩ (84,080)             | ₩ (664,172)                  |
| Actuarial valuation   | 1,471,318                  | 247,136                | 1,718,454                    | 349,833                                  | 59,046                 | 408,879                      |
| Subtotal  | ₩ (1,110,310)              | ₩ (59,116)             | ₩ (1,169,426)                | ₩ (230,259)                              | ₩ (25,034)             | ₩ (255,293)                  |
| Deferred tax assets   |                            |                        |                              |  |                        | ₩ 4,621,780                  |
| Deferred tax liabilities  |                            |                        |                              |  |                        | (6,012,371)                  |
| Total   |                            |                        |                              |  |                        | ₩ (1,390,591)                |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) As of December 31, 2012

| <i>(In millions of Korean won)</i>                                      | Temporary Differences      |                        |                              | Deferred Income Tax Assets (Liabilities) |                        |                              |
|---|----------------------------|------------------------|------------------------------|--|------------------------|------------------------------|
|   | Balance as of<br>January 1 | Increase<br>(Decrease) | Balance as of<br>December 31 | Balance as of<br>January 1               | Increase<br>(Decrease) | Balance as of<br>December 31 |
| <b>Deferred tax arising from temporary differences</b>                  |                            |                        |                              |  |                        |                              |
| Special reserves appropriated for tax purposes                          | ₩ (18,146)                 | ₩ (14,951)             | ₩ (33,097)                   | ₩ (4,391)                                | ₩ (3,619)              | ₩ (8,010)                    |
| Revaluation of land   | (4,017,316)                | 539,625                | (3,477,691)                  | (972,191)                                | 130,590                | (841,601)                    |
| Investments in subsidiaries, associates and joint ventures <sup>1</sup> | (13,450,537)               | (11,813,329)           | (25,263,866)                 | (3,032,268)                              | (650,000)              | (3,682,268)                  |
| Depreciation  | (13,547)                   | 1,250,940              | 1,237,393                    | (62,124)                                 | 255,468                | 193,344                      |
| Accrued income  | (92,953)                   | (31,224)               | (124,177)                    | (21,337)                                 | (6,826)                | (28,163)                     |
| Provisions, accrued expenses and others                                 | 7,144,431                  | 3,217,777              | 10,362,208                   | 1,806,514                                | 750,331                | 2,556,845                    |
| Foreign currency translation  | 150,908                    | (164,168)              | (13,260)                     | 35,482                                   | (41,449)               | (5,967)                      |
| Asset impairment losses   | 52,901                     | 37,755                 | 90,656                       | 10,937                                   | 5,587                  | 16,524                       |
| Others  | 779,626                    | (1,673,860)            | (894,234)                    | 288,217                                  | (459,967)              | (171,750)                    |
| <b>Subtotal</b>   | <b>₩ (9,464,633)</b>       | <b>₩ (8,651,435)</b>   | <b>₩ (18,116,068)</b>        | <b>₩ (1,951,161)</b>                     | <b>₩ (19,885)</b>      | <b>₩ (1,971,046)</b>         |
| <b>Deferred tax arising from carryforwards</b>                          |                            |                        |                              |  |                        |                              |
| Undisposed accumulated deficit  | ₩ 100,401                  | ₩ 30,591               | ₩ 130,992                    | ₩ 26,961                                 | ₩ 850                  | ₩ 27,811                     |
| Tax credit carryforwards  | 1,512,052                  | (195,543)              | 1,316,509                    | 1,495,747                                | (235,640)              | 1,260,107                    |
| <b>Deferred tax recognized in other comprehensive income</b>            |                            |                        |                              |  |                        |                              |
| Valuation of available-for-sale financial instruments                   | ₩ (1,316,863)              | ₩ (1,264,765)          | ₩ (2,581,628)                | ₩ (318,052)                              | ₩ (262,040)            | ₩ (580,092)                  |
| Actuarial valuation   | 813,514                    | 657,804                | 1,471,318                    | 196,149                                  | 153,684                | 349,833                      |
| <b>Subtotal</b>   | <b>₩ (503,349)</b>         | <b>₩ (606,961)</b>     | <b>₩ (1,110,310)</b>         | <b>₩ (121,903)</b>                       | <b>₩ (108,356)</b>     | <b>₩ (230,259)</b>           |
| Deferred tax assets   |                            |                        |                              |  |                        | ₩ 2,516,080                  |
| Deferred tax liabilities  |                            |                        |                              |  |                        | (3,429,467)                  |
| <b>Total</b>  |                            |                        |                              |  |                        | <b>₩ (913,387)</b>           |

<sup>1</sup> 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 Company periodically assesses its ability to recover deferred income tax assets. In the event of a significant uncertainty regarding the Company's ultimate ability to recover such assets, deferred income 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.



## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Temporary differences whose deferred tax effects were not recognized due to the uncertainty regarding ultimate realizability of such assets as of December 31, 2013 and 2012 are as follows:

| <i>(In millions of Korean won)</i> | <b>2013</b> |        | <b>2012</b> |        |
|------------------------------------|-------------|--------|-------------|--------|
| Unused tax losses                  | ₩           | 12,196 | ₩           | -      |
| Unused tax credits                 |             | 30,098 |             | 48,262 |

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

| <i>(In millions of Korean won)</i> | <b>2014</b> |       | <b>2015</b> |       | <b>2016</b> |        | <b>2017 and after</b> |        |
|------------------------------------|-------------|-------|-------------|-------|-------------|--------|-----------------------|--------|
| Undisposed accumulated deficit     | ₩           | -     | ₩           | -     | ₩           | -      | ₩                     | 12,196 |
| Tax credit carryforwards           |             | 4,170 |             | 3,437 |             | 18,525 |                       | 3,966  |

(D) The liquidity analysis of deferred tax assets and deferred tax liabilities is as follows:

| <i>(In millions of Korean won)</i> | <b>2013</b> |             | <b>2012</b> |             |
|------------------------------------|-------------|-------------|-------------|-------------|
| Current                            | ₩           | (107,699)   | ₩           | 1,898,481   |
| Non-current                        |             | (1,282,892) |             | (2,811,868) |
| Total                              | ₩           | (1,390,591) | ₩           | (913,387)   |

### 30. Earnings per Share

Basic earnings per share for the years ended December 31, 2013 and 2012, are calculated as follows:

| <i>(In millions of Korean won and thousands of number of shares)</i> | <b>2013</b> |            | <b>2012</b> |            |
|--|-------------|------------|-------------|------------|
| Net income as reported on the statements of income                   | ₩           | 29,821,215 | ₩           | 23,185,375 |
| Net income available for common stock                                |             | 25,893,396 |             | 20,130,020 |
| Weighted-average number of common shares outstanding (in thousands)  |             | 130,880    |             | 130,698    |
| Basic earnings per share (in Korean won)                             | ₩           | 197,841    | ₩           | 154,020    |

| <i>(In millions of Korean won and thousands of number of shares)</i>   | <b>2013</b> |            | <b>2012</b> |            |
|--|-------------|------------|-------------|------------|
| Net income as reported on the statements of income                     | ₩           | 29,821,215 | ₩           | 23,185,375 |
| Net income available for preferred stock                               |             | 3,927,819  |             | 3,055,355  |
| Weighted-average number of preferred shares outstanding (in thousands) |             | 19,854     |             | 19,854     |
| Basic earnings per preferred share (in Korean won)                     | ₩           | 197,838    | ₩           | 153,893    |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: stock options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Diluted earnings per share for the years ended December 31, 2013 and 2012, are calculated as follows:

| <i>(In millions of Korean won and thousands of number of shares)</i>                          | <b>2013</b>  | <b>2012</b>  |
|---|--------------|--------------|
| Net income available for common stock and common stock equivalents                            | ₩ 25,894,151 | ₩ 20,131,405 |
| Weighted-average number of shares of common stock and common stock equivalents (in thousands) | 130,911      | 130,766      |
| Diluted earnings per share (in Korean won)  | ₩ 197,800    | ₩ 153,950    |

| <i>(In millions of Korean won and thousands of number of shares)</i>                                | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Net income available for preferred stock and preferred stock equivalents                            | ₩ 3,927,064 | ₩ 3,053,970 |
| Weighted-average number of shares of preferred stock and preferred stock equivalents (in thousands) | 19,854      | 19,854      |
| Diluted earnings per preferred share (in Korean won)  | ₩ 197,800   | ₩ 153,823   |

**Samsung Electronics Co., Ltd. and Subsidiaries**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**31. Cash Generated from Operations**

(A) Cash flows from operating activities as of December 31, 2013 and 2012, consist of the following:

| <i>(In millions of Korean won)</i>                | <b>2013</b>  | <b>2012</b>  |
|---|--------------|--------------|
| Adjustments for:                                  |              |              |
| Income tax expense                                | ₩ 7,889,515  | ₩ 6,069,732  |
| Finance income                                    | (2,551,623)  | (2,068,888)  |
| Finance costs                                     | 1,568,663    | 1,755,715    |
| Severance and retirement benefits                 | 971,997      | 768,423      |
| Depreciation                                      | 15,470,012   | 14,835,046   |
| Amortization                                      | 975,401      | 786,970      |
| Bad debt expenses, etc.                           | 282,978      | 205,424      |
| Gain on valuation of equity method                | (504,063)    | (986,611)    |
| Gain on disposal of property, plant and equipment | (110,638)    | (147,645)    |
| Loss on disposal of property, plant and equipment | 187,863      | 324,993      |
| Obsolescence and scrapping of inventories, etc.   | 1,045,360    | 1,212,222    |
| Gain on disposal of investments                   | (1,117,029)  | (112,505)    |
| Impairment losses on intangible assets            | 108,420      | 216,790      |
| Other income/expense                              | (412,024)    | (100,107)    |
| Adjustments, total                                | ₩ 23,804,832 | ₩ 22,759,559 |

| <i>(In millions of Korean won)</i>       | <b>2013</b>   | <b>2012</b>   |
|--|---------------|---------------|
| Changes in assets and liabilities:       |               |               |
| Increase in trade receivables            | ₩ (1,993,705) | ₩ (2,032,126) |
| Decrease/(increase) in other receivables | 192,054       | (536,202)     |
| Increase in advances                     | (144,720)     | (277,329)     |
| Increase in prepaid expenses             | (321,953)     | (72,285)      |
| Increase in inventories                  | (3,097,762)   | (4,011,553)   |
| Decrease in trade payables               | (965,677)     | (465,450)     |
| Increase/(decrease) in other payables    | 1,296,263     | (416,870)     |
| Increase in advances received            | 49,495        | 88,152        |
| Increase/(decrease) in withholdings      | 323,874       | (663,733)     |
| Increase in accrued expenses             | 2,261,910     | 2,183,846     |
| Increase in provisions                   | 2,009,248     | 1,824,693     |
| Payment of severance benefits            | (244,186)     | (301,444)     |
| Increase in plan assets                  | (837,296)     | (440,420)     |
| Others                                   | 159,210       | (657,228)     |
| Changes in net working capital, total    | ₩ (1,313,245) | ₩ (5,777,949) |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(B) Significant transactions not affecting cash flows for the years ended December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i>   | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
| Valuation of available-for-sale financial assets   | ₩ 1,271,817 | ₩ 1,185,256 |
| Reclassification of construction in progress and machinery in transit to property, plant and equipment | 16,578,339  | 19,567,010  |
| Reclassification of investment in associates to assets held for sale                                   | 2,716,733   | -           |
| Valuation of investments in associates and joint ventures  | 20,756      | (350,491)   |
| Non-cash consideration transferred for business combinations   | -           | (633,708)   |
| Reclassification of current maturities of long-term borrowings   | 1,920,748   | 493,860     |
| Reclassification of current maturities of bonds  | 505,277     | 505,356     |

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

(D) Among the net cash used in investing activities for the year ended December 31, 2013, cash outflows from business combination include the acquisition of assets and liabilities of NeuroLogica.

### **32. Financial Risk Management**

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

The finance team mainly carries out the Company's financial risk management. With the cooperation of the Company's divisions, 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 of America, England, Singapore, China, Japan, Brazil and Russia to operate the local finance center for global financial risk management.

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

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (A) Market risk

##### (1) Foreign exchange risk

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

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

A summary of foreign assets and liabilities of the Company, presented in Korean won, as of December 31, 2013 and 2012 is as follows:

| <i>(In millions of Korean won)</i> | <b>2013</b> |             |            |               | <b>2012</b> |             |            |               |
|------------------------------------|-------------|-------------|------------|---------------|-------------|-------------|------------|---------------|
|                                    | <b>USD</b>  | <b>EUR</b>  | <b>JPY</b> | <b>Others</b> | <b>USD</b>  | <b>EUR</b>  | <b>JPY</b> | <b>Others</b> |
| Financial assets                   | ₩ 9,834,247 | ₩ 1,253,898 | ₩ 269,600  | ₩ 1,581,019   | ₩12,709,235 | ₩ 1,085,390 | ₩ 178,373  | ₩ 1,577,076   |
| Financial liabilities              | 9,664,814   | 1,071,174   | 1,172,213  | 191,674       | 9,550,081   | 978,953     | 1,142,081  | 214,639       |

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> | <b>2013</b>     |                 | <b>2012</b>     |                 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                    | <b>Increase</b> | <b>Decrease</b> | <b>Increase</b> | <b>Decrease</b> |
| Financial assets                   | ₩ 646,938       | ₩ (646,938)     | ₩ 777,504       | ₩ (777,504)     |
| Financial liabilities              | (604,994)       | 604,994         | (594,288)       | 594,288         |
| Net effect                         | 41,944          | (41,944)        | 183,216         | (183,216)       |

##### (2) Price risk

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

As of December 31, 2013 and 2012, a price fluctuation in relation to marketable equity securities by 1% would result in changes in other comprehensive income (before income tax) of ₩43,933 million and ₩44,359 million, respectively.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (3) Interest rate risk

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

The sensitivity risk of the Company 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 rate on borrowings are presented below:

| <i>(In millions of Korean won)</i> | 2013     |            | 2012     |            |
|------------------------------------|----------|------------|----------|------------|
|                                    | Increase | Decrease   | Increase | Decrease   |
| Financial assets                   | ₩ 46,025 | ₩ (46,025) | ₩ 78,164 | ₩ (78,164) |
| Financial liabilities              | (22,942) | 22,942     | (21,864) | 21,864     |
|                                    | ₩ 23,083 | ₩ (23,038) | ₩ 56,300 | ₩ (56,300) |

#### (B) Credit risk

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

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

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

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (C) Liquidity risk

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

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

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

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.

| <b>2013</b><br><i>(In millions of Korean won)</i> | <b>Less than<br/>3 months</b> | <b>4-6<br/>months</b> | <b>7-12<br/>months</b> | <b>1-5<br/>years</b> | <b>More than<br/>5 years</b> |
|---|-------------------------------|-----------------------|------------------------|----------------------|------------------------------|
| Financial liabilities                             | ₩ 33,862,896                  | ₩ 1,095,285           | ₩ 4,806,477            | ₩ 2,564,769          | ₩ 65,772                     |

  

| <b>2012</b><br><i>(In millions of Korean won)</i> | <b>Less than<br/>3 months</b> | <b>4-6<br/>months</b> | <b>7-12<br/>months</b> | <b>1-5<br/>years</b> | <b>More than<br/>5 years</b> |
|---|-------------------------------|-----------------------|------------------------|----------------------|------------------------------|
| Financial liabilities                             | ₩ 32,257,940                  | ₩ 1,690,825           | ₩ 2,371,879            | ₩ 7,006,975          | ₩ 76,236                     |

The Company's trading portfolio of derivative instruments have been included at their fair value of ₩244,172 million (2012: ₩79,212 million) within the less than three month time bucket because the contractual maturities are not essential for an understanding of the timing of the cash flows. 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 Company 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 of December 31, 2013 is ₩183,644 million (December 31, 2012: ₩ 151,817 million).

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (D) Capital risk management

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

The Company's capital risk management policy has not changed since the fiscal year ended December 31, 2012. The Company has maintained an A+ and A1 credit ratings from S&P and Moody's, respectively, on its long term debt.

The total liabilities to equity ratios as of December 31, 2013 and 2012, are as follows:

| <i>(In millions of Korean won)</i> | <b>2013</b>  | <b>2012</b>  |
|------------------------------------|--------------|--------------|
| Total liabilities                  | ₩ 64,059,008 | ₩ 59,591,364 |
| Total equity                       | 150,016,010  | 121,480,206  |
| Total liabilities to equity ratio  | 42.7%        | 49.1%        |

#### (E) Fair value measurement

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

##### 2013

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

##### 2012

| <i>(In millions of Korean won)</i>               | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total balance</b> |
|--|----------------|----------------|----------------|----------------------|
| Derivatives                                      | ₩ -            | ₩ 47,227       | ₩ -            | ₩ 47,227             |
| Available-for-sale financial assets <sup>1</sup> | 5,694,730      | 125,994        | 389,195        | 6,209,919            |
| <b>Total assets</b>                              | 5,694,730      | 173,221        | 389,195        | 6,257,146            |
| Derivatives                                      | -              | 79,212         | -              | 79,212               |
| <b>Total liabilities</b>                         | ₩ -            | ₩ 79,212       | ₩ -            | ₩ 79,212             |

<sup>1</sup> Amount measured at cost (2013: ₩388,225 million, 2012: ₩278,130 million) is excluded as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.



## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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.

#### (2) Changes in Level 3 instruments:

| <i>(In millions of Korean won)</i>                        | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Balance as of January 1                                   | ₩ 389,195   | ₩ 623,739   |
| Purchases   | 151,741     | 82,508      |
| Disposals, etc.   | (46,357)    | (31,972)    |
| Gains and losses recognized in other comprehensive income | 2,615       | (6,294)     |
| Others <sup>1</sup>                                       | (3,816)     | (278,786)   |
| Balance as of December 31                                 | ₩ 493,378   | ₩ 389,195   |

<sup>1</sup> Amount measured at cost is included as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (3) Valuation technique and the inputs

The Company utilizes a present value technique to discount future cash flows at a proper interest rate for corporate bonds, government and public bonds, and bank debentures that are classified as Level 2 in the fair value hierarchy. The Company uses a binomial pricing model derived from the assumption that the underlying assets for the currency forward contracts follow a binomial probability distribution.

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)                     |
|--|------------|----------------------|---|--|
| Samsung Petrochemical                          | 80,347     | Discounted cash flow | Permanent growth rate<br>Weighted average cost of capital | -1.00% ~ 1.00% (0%)<br>6.37% ~ 8.37% (7.37%)       |
| Samsung General Chemicals                      | 80,653     | Discounted cash flow | Permanent growth rate<br>Weighted average cost of capital | -1.00% ~ 1.00% (0%)<br>7.01% ~ 9.01% (8.01%)       |
| Taewon Electric                                | 17,072     | Discounted cash flow | Permanent growth rate<br>Weighted average cost of capital | -1.00% ~ 1.00% (0%)<br>6.06% ~ 8.06% (7.06%)       |
| Pantech  | 53,053     | Discounted cash flow | Permanent growth rate<br>Weighted average cost of capital | -1.00% ~ 1.00% (0%)<br>8.81% ~ 10.81% (9.81%)      |
| Samsung Venture Investment                     | 7,021      | Discounted cash flow | Permanent growth rate<br>Weighted average cost of capital | -1.00% ~ 1.00% (0%)<br>7.69% ~ 9.69% (8.69%)       |
| Embedded derivatives (convertible bonds, etc.) | 13,240     | Binomial model       | Discount rate<br>Stock price volatility                   | 6.81% ~ 12.96% (8.34%)<br>13.77% ~ 20.02% (17.15%) |

#### (4) 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 from changes in inputs for each financial instrument, which is categorized within Level 3 and subject to sensitivity analysis, are as follows:

*(In millions of Korean won)*

| Classification  | Favorable Changes |        | Unfavorable Changes |          |
|---|-------------------|--------|---------------------|----------|
|   | Profit or Loss    | Equity | Profit or Loss      | Equity   |
| Available-for-sale financial assets <sup>1</sup>            | -                 | 35,324 | -                   | (27,586) |
| Embedded derivatives (convertible bonds, etc.) <sup>2</sup> | 1,457             | 1,457  | (1,499)             | (1,499)  |
| Total   | 1,457             | 36,781 | (1,499)             | (29,085) |

<sup>1</sup> For equity securities, changes in their fair value are calculated by increasing or decreasing the correlation between growth ratio (-1% ~ 1%) and discount rate, which are significant unobservable inputs.

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

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 33. 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. Operating segment information for the year ended December 31, 2012 has been restated in accordance with the organizational changes.

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 it has not been provided regularly to the Management Committee.

The segment information provided to the Management committee for the reportable segments for the years ended December 31 2013 and 2012, is as follows:

| 2013<br><br>(In millions of<br>Korean won) | DS           |               |                    |                   |              |                    | Intercompany<br>elimination<br>within the<br>group | Consolidated |
|--|--------------|---------------|--------------------|-------------------|--------------|--------------------|--|--------------|
|  | CE           | IM            | Total <sup>1</sup> | Semi<br>conductor | DP           | Total <sup>1</sup> |  |              |
| Total segment revenue                      | 125,088,762  | 299,161,654   | 334,394,781        | 70,908,145        | 61,294,886   | 558,196,178        | (329,503,511)                                      | 228,692,667  |
| Intercompany revenue                       | (74,757,247) | (160,344,435) | (66,633,875)       | (33,471,566)      | (31,457,770) | (329,503,511)      | 329,503,511  | -            |
| Net revenue <sup>2</sup>                   | 50,331,515   | 138,817,219   | 67,760,906         | 37,436,579        | 29,837,116   | 228,692,667        | -  | 228,692,667  |
| Depreciation                               | 653,354      | 632,498       | 13,689,148         | 9,295,951         | 4,203,457    | 15,470,012         | -  | 15,470,012   |
| Amortization                               | 93,699       | 188,353       | 416,916            | 294,605           | 106,249      | 975,401            | -  | 975,401      |
| Operating profit                           | 1,673,343    | 24,957,741    | 10,000,665         | 6,887,978         | 2,980,563    | 36,785,013         | -  | 36,785,013   |

  

| 2012<br><br>(In millions of<br>Korean won) | DS           |               |                    |                   |              |                    | Intercompany<br>elimination<br>within the<br>group | Consolidated |
|--|--------------|---------------|--------------------|-------------------|--------------|--------------------|--|--------------|
|  | CE           | IM            | Total <sup>1</sup> | Semi<br>conductor | DP           | Total <sup>1</sup> |  |              |
| Total segment Revenue                      | 117,897,781  | 224,920,171   | 336,724,256        | 66,976,623        | 69,359,762   | 479,499,910        | (278,396,297)                                      | 201,103,613  |
| Intercompany revenue                       | (66,792,679) | (119,075,488) | (68,436,962)       | (32,090,017)      | (36,360,406) | (278,396,297)      | 278,396,297  | -            |
| Net revenue <sup>2</sup>                   | 51,105,102   | 105,844,683   | 68,287,294         | 34,886,606        | 32,999,356   | 201,103,613        | -  | 201,103,613  |
| Depreciation                               | 578,686      | 484,231       | 13,354,303         | 9,087,880         | 4,179,088    | 14,835,046         | -  | 14,835,046   |
| Amortization                               | 76,380       | 182,730       | 274,568            | 186,497           | 77,047       | 786,970            | -  | 786,970      |
| Operating profit                           | 2,324,036    | 19,418,235    | 7,416,325          | 4,173,730         | 3,214,750    | 29,049,338         | -  | 29,049,338   |

<sup>1</sup> The total amount includes others not composing operating segments.

<sup>2</sup> Net revenue by segment includes intersegment revenue by segment.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (B) Regional information

The regional segment information provided to the Management Committee for the reportable segments for the years ended 31 December 2013 and 2012, is as follows:

#### 2013

| <i>(In millions of Korean won)</i> | <b>Korea</b>  | <b>America</b> | <b>Europe</b> | <b>Asia and<br/>Africa</b> | <b>China</b> | <b>Intercompany<br/>elimination<br/>within the<br/>group</b> | <b>Consolidated</b> |
|------------------------------------|---------------|----------------|---------------|----------------------------|--------------|--|---------------------|
| Total segment revenue              | 193,645,486   | 94,703,877     | 79,416,987    | 76,409,011                 | 114,020,817  | (329,503,511)  | 228,692,667         |
| Intercompany revenue               | (170,862,177) | (25,320,451)   | (26,738,602)  | (32,712,684)               | (73,869,597) | 329,503,511  | -                   |
| Revenue from                       |               |                |               |                            |              |  |                     |
| external customers                 | 22,783,309    | 69,383,426     | 52,678,385    | 43,696,327                 | 40,151,220   | -  | 228,692,667         |
| Non-current assets <sup>1</sup>    | 61,881,863    | 7,172,187      | 1,024,699     | 2,636,552                  | 7,436,424    | (674,737)  | 79,476,988          |

<sup>1</sup> The total of non-current assets other than financial instruments, deferred tax assets, and investments in associates and joint ventures.

#### 2012

| <i>(In millions of Korean won)</i> | <b>Korea</b>  | <b>America</b> | <b>Europe</b> | <b>Asia and<br/>Africa</b> | <b>China</b> | <b>Intercompany<br/>elimination<br/>within the<br/>group</b> | <b>Consolidated</b> |
|------------------------------------|---------------|----------------|---------------|----------------------------|--------------|--|---------------------|
| Total segment revenue              | 179,434,349   | 81,440,718     | 75,448,403    | 57,246,033                 | 85,930,407   | (278,396,297)  | 201,103,613         |
| Intercompany revenue               | (150,254,258) | (23,277,536)   | (25,927,742)  | (21,167,278)               | (57,769,483) | 278,396,297  | -                   |
| Revenue from                       |               |                |               |                            |              |  |                     |
| external customers                 | 29,180,091    | 58,163,182     | 49,520,661    | 36,078,755                 | 28,160,924   | -  | 201,103,613         |
| Non-current assets <sup>1</sup>    | 60,591,343    | 6,890,648      | 1,030,437     | 1,749,330                  | 2,574,796    | (622,106)  | 72,214,448          |

<sup>1</sup> The total of non-current assets other than financial instruments, deferred tax assets, and investments in associates and joint ventures.

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 34. Related Party Transactions

##### (A) Sale and purchase transactions

Sales and purchases with related parties for the years ended December 31, 2013 and 2012, are as follows:

| <b>2013</b><br><i>(In millions of Korean won)</i> | Name of Company <sup>1</sup>         | Sales, etc.    | Disposal of<br>fixed assets | Purchase, etc.    | Purchase of<br>fixed assets |
|---|--------------------------------------|----------------|-----------------------------|-------------------|-----------------------------|
|   | Samsung SDS                          | ₩ 35,166       | ₩ 130,771                   | ₩1,673,999        | ₩ 369,395                   |
|   | Samsung Electro-Mechanics            | 72,897         | 192                         | 2,662,680         | 76                          |
|   | Samsung SDI                          | 52,909         | -                           | 667,658           | 1,258                       |
| Associates  | Samsung SNS <sup>2</sup>             | 11,418         | -                           | 164,093           | 3,973                       |
|   | Samsung Techwin                      | 15,582         | -                           | 84,074            | 68,949                      |
|   | Others                               | 412,353        | -                           | 6,042,874         | 284,231                     |
|   | <b>Total (associates)</b>            | <b>600,325</b> | <b>130,963</b>              | <b>11,295,378</b> | <b>727,882</b>              |
|   | Samsung Corning Precision Materials  | 9,931          | -                           | 1,758,317         | 145,324                     |
| Joint ventures                                    | Siltronic Samsung Wafer              | -              | -                           | 195,795           | -                           |
|   | Others                               | 83             | -                           | 147               | -                           |
|   | <b>Total (joint ventures)</b>        | <b>10,014</b>  | <b>-</b>                    | <b>1,954,259</b>  | <b>145,324</b>              |
|   | Samsung Everland                     | 12,690         | -                           | 543,162           | 487,107                     |
| Other related parties                             | Others                               | 112,896        | -                           | 83,058            | 22,942                      |
|   | <b>Total (other related parties)</b> | <b>125,586</b> | <b>-</b>                    | <b>626,220</b>    | <b>510,049</b>              |

<sup>1</sup> Transactions with separate entities that are related parties of the Company

<sup>2</sup> Samsung SNS was acquired by Samsung SDS in 2013, and the above amounts relate to transactions prior to the acquisition.

| <b>2012</b><br><i>(In millions of Korean won)</i> | Name of Company <sup>1</sup>         | Sales, etc.    | Disposal of<br>fixed assets | Purchase, etc.   | Purchase of<br>fixed assets |
|---|--------------------------------------|----------------|-----------------------------|------------------|-----------------------------|
|   | Samsung SDS                          | ₩ 68,234       | ₩ 202                       | ₩1,508,214       | ₩ 365,482                   |
|   | Samsung Electro-Mechanics            | 163,086        | 104                         | 2,229,786        | -                           |
|   | Samsung SDI                          | 117,020        | 1                           | 874,972          | 183                         |
| Associates  | Samsung SNS                          | 15,697         | -                           | 227,165          | 208                         |
|   | Samsung Techwin                      | 25,051         | -                           | 89,889           | 79,076                      |
|   | Others                               | 417,228        | 35                          | 4,303,946        | 31,689                      |
|   | <b>Total (associates)</b>            | <b>806,316</b> | <b>342</b>                  | <b>9,233,972</b> | <b>476,638</b>              |
|   | Samsung Corning Precision Materials  | 20,185         | 14,660                      | 2,517,028        | -                           |
| Joint ventures                                    | Siltronic Samsung Wafer              | -              | -                           | 255,665          | -                           |
|   | Others                               | 639            | -                           | 28,296           | -                           |
|   | <b>Total (joint ventures)</b>        | <b>20,824</b>  | <b>14,660</b>               | <b>2,800,989</b> | <b>-</b>                    |
|   | Samsung Everland                     | 8,363          | 281                         | 398,621          | 319,459                     |
| Other related parties                             | Others                               | 100,584        | -                           | 34,042           | 48                          |
|   | <b>Total (other related parties)</b> | <b>108,947</b> | <b>281</b>                  | <b>432,663</b>   | <b>319,507</b>              |

<sup>1</sup> Transactions with separate entities that are related parties of the Company

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (B) Balances of receivables and payables

Year-end balances of receivables and payables arising from sales and purchases of goods and services as of December 31, 2013 and 2012, are as follows:

| <b>2013</b>                        |                                      |                   |                  |
|------------------------------------|--------------------------------------|-------------------|------------------|
| <i>(In millions of Korean won)</i> | Name of Company                      | Receivables, etc. | Payables, etc.   |
| Associates                         | Samsung SDS                          | ₩ 11,319          | ₩ 479,417        |
|                                    | Samsung Electro-Mechanics            | 5,972             | 168,494          |
|                                    | Samsung SDI                          | 4,863             | 39,207           |
|                                    | Samsung Techwin                      | 1,879             | 44,286           |
|                                    | Others                               | 65,714            | 477,446          |
|                                    | <b>Total (associates)</b>            | <b>89,747</b>     | <b>1,208,850</b> |
| Joint ventures                     | Samsung Corning Precision Materials  | 3,514             | 266,400          |
|                                    | Siltronic Samsung Wafer              | -                 | 1,454            |
|                                    | Others                               | 3                 | 25               |
|                                    | <b>Total (joint ventures)</b>        | <b>3,517</b>      | <b>267,879</b>   |
| Other related parties              | Samsung Everland                     | 188,982           | 282,777          |
|                                    | Others                               | 24,494            | 25,402           |
|                                    | <b>Total (other related parties)</b> | <b>213,476</b>    | <b>308,179</b>   |

| <b>2012</b>                        |                                      |                   |                |
|------------------------------------|--------------------------------------|-------------------|----------------|
| <i>(In millions of Korean won)</i> | Name of Company                      | Receivables, etc. | Payables, etc. |
| Associates                         | Samsung SDS                          | ₩ 13,651          | ₩ 384,590      |
|                                    | Samsung Electro-Mechanics            | 9,823             | 160,804        |
|                                    | Samsung SDI                          | 6,285             | 55,784         |
|                                    | Samsung SNS                          | 9,310             | 49,044         |
|                                    | Samsung Techwin                      | 1,859             | 18,167         |
|                                    | Others                               | 44,773            | 286,960        |
|                                    | <b>Total (associates)</b>            | <b>85,701</b>     | <b>955,349</b> |
| Joint ventures                     | Samsung Corning Precision Materials  | 560               | 380,904        |
|                                    | Siltronic Samsung Wafer              | -                 | 20,595         |
|                                    | Others                               | 318               | 7,386          |
|                                    | <b>Total (joint ventures)</b>        | <b>878</b>        | <b>408,885</b> |
| Other related parties              | Samsung Everland                     | 166,828           | 178,049        |
|                                    | Others                               | 23,012            | 1,597          |
|                                    | <b>Total (other related parties)</b> | <b>189,840</b>    | <b>179,646</b> |

#### (C) Key management compensation

Key management includes directors (executive and non-executive) and members of the Executive Committee. The compensation paid or payable for employee services for the years ended December 31, 2013 and 2012, consists of:

| <i>(In millions of Korean won)</i>              | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Salaries and other short-term employee benefits | ₩ 23,906    | ₩ 10,062    |
| Termination benefits                            | 763         | 530         |
| Other long-term benefits                        | 7,402       | 5,865       |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 35. 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 Company for the years ended December 31, 2013 and 2012, is as follows:

| <b>2013</b><br><i>(In millions of Korean won)</i> | Percentage of Non-<br>Controlling Interests | Balance as<br>of January 1 | Net Income | Dividends | Others    | Balance as of<br>December 31 |
|---|---|----------------------------|------------|-----------|-----------|------------------------------|
| Samsung Display and its subsidiaries              | 15.2%                                       | 4,061,948                  | 433,700    | (1,553)   | 610,030   | 5,104,125                    |
| <b>2012</b><br><i>(In millions of Korean won)</i> | Percentage of Non-<br>Controlling Interests | Balance as<br>of January 1 | Net Income | Dividends | Others    | Balance as of<br>December 31 |
| Samsung Display and its subsidiaries              | 15.2%                                       | -                          | 325,405    | -         | 3,736,543 | 4,061,948                    |

(B) The summarized financial information for each subsidiary with non-controlling interests that are material to the Company before intercompany eliminations is as follows:

(1) Summarized consolidated statements of financial position

| <i>(In millions of Korean won)</i> | <b>Samsung Display and its subsidiaries</b> |                          |
|------------------------------------|---|--------------------------|
|                                    | <b>December 31, 2013</b>                    | <b>December 31, 2012</b> |
| Current assets                     | 14,473,616                                  | 11,605,285               |
| Non-current assets                 | 23,454,045                                  | 23,338,931               |
| Current liabilities                | 6,115,203                                   | 6,328,757                |
| Non-current liabilities            | 914,398                                     | 2,627,547                |
| Equity attributable to:            | 30,898,060                                  | 25,987,912               |
| Owners of the parent               | 30,434,116                                  | 25,840,634               |
| Non-controlling interests          | 463,944                                     | 147,278                  |

## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Summarized consolidated statements of comprehensive income

| <i>(In millions of Korean won)</i>          | <b>Samsung Display and its subsidiaries</b> |             |
|---|---|-------------|
|   | <b>2013</b>                                 | <b>2012</b> |
| Sales                                       | 29,478,707                                  | 21,737,347  |
| Net income                                  | 2,669,623                                   | 2,329,078   |
| Other comprehensive income                  | (26,415)                                    | (82,279)    |
| Total comprehensive income attributable to: | 2,643,208                                   | 2,246,799   |
| Owners of the parent                        | 2,631,672                                   | 2,252,282   |
| Non-controlling interests                   | 11,536                                      | (5,483)     |

(3) Summarized consolidated statements of cash flows

| <i>(In millions of Korean won)</i>               | <b>Samsung Display and its subsidiaries</b> |             |
|--|---|-------------|
|  | <b>2013</b>                                 | <b>2012</b> |
| Cash flows from operating activities             | 7,748,974                                   | 6,073,334   |
| Cash flows from investing activities             | (10,321,562)                                | (3,659,543) |
| Cash flows from financing activities             | (1,339,815)                                 | 1,004,134   |
| Exchange rate effect on foreign currency (cash)  | 13,546                                      | (7,152)     |
| Increase (decrease) in cash and cash equivalents | (3,898,857)                                 | 3,410,773   |
| Cash and cash equivalents at beginning of period | 5,341,713                                   | 1,930,940   |
| Cash and cash equivalents at end of period       | 1,442,856                                   | 5,341,713   |

### 36. Business Combination

Samsung Electronics America, the Company's subsidiary, acquired 100% of equity shares of NeuroLogica, with a closing date of January 28, 2013 and the entity became part of the consolidation as of the same date.

(A) Overview of the acquired company

|  |                    |
|--|--------------------|
| Name of the acquired company           | NeuroLogica        |
| Headquarters location                  | Danvers, MA. USA   |
| Representative director                | Eric Bailey        |
| Classification of the acquired company | Non-listed company |
| Current relationship with the Company  | Subsidiary         |



## Samsung Electronics Co., Ltd. and Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (B) Purchase price allocation

The following table summarizes the consideration paid for NeuroLogica, the amounts of the assets acquired and liabilities assumed as of the acquisition date.

| <i>(In millions of Korean won)</i>      | <b>Amount</b> |
|---|---------------|
| I. Consideration transferred            | ₩ 167,819     |
| II. Identifiable assets and liabilities |               |
| Cash and cash equivalents               | 664           |
| Trade and other receivables             | 7,301         |
| Inventories                             | 8,576         |
| Property, plant and equipment           | 1,052         |
| Intangible assets                       | 51,222        |
| Trade and other payables                | (8,265)       |
| Deferred income tax liabilities         | (8,630)       |
| Total net identifiable assets           | 51,920        |
| III. Goodwill                           | ₩ 115,899     |

Had NeuroLogica been consolidated on January 1, 2013, revenue would increase by ₩1,043 million and net loss would increase by ₩403 million on the consolidated statement of income. Revenue and net loss contributed by NeuroLogica after the consolidation date of January 28, 2013 amount to ₩38,646 million and ₩385 million, respectively.

#### 37. Events after the Reporting Period

- (A) On January 1, 2014, an amendment to local income tax laws was promulgated in Republic of Korea, where the controlling Company is domiciled. This is expected to affect the measurements of current tax for annual periods beginning on or after January 1, 2014 and of deferred tax assets resulting from the decline in future tax effects on tax credit carryforwards.
- (B) On January 15, 2014, the Company disposed of all shares (percentage of ownership: 42.54%) of Samsung Corning Precision Materials for USD 1,902 million and acquired 2,300 shares of convertible preferred stocks of Corning Incorporated for USD 2,300 million.
- (C) Based on the Board of Directors resolution dated January 24, 2014, the Company decided to participate in a capital increase (investment amount: ₩ 301,000 million) to expand the production capacity and to fund the development of biosimilars of Samsung Biologics, a related party of the Company.