



Samsung Electro-Mechanics Co., Ltd.

Consolidated financial statements

Years ended December 31, 2013 and 2012

with independent auditors' report



Building a better
working world

Contents

	Page
Independent auditors' report	1-2
Consolidated statements of financial position	3
Consolidated statements of profit or loss and other comprehensive income	4
Consolidated statements of changes in equity	5-6
Consolidated statements of cash flows	7-8
Notes to consolidated financial statements	9-80



Ernst & Young Han Young
Taeyoung Building, 111, Yeouigongwon-ro,
Yeongdeungpo-gu, Seoul 150-777 Korea

Tel: +82 2 3787 6600
Fax: +82 2 783 5890
ey.com/kr

Independent auditors' report

The Board of Directors and Stockholders
Samsung Electro-Mechanics Co., Ltd.

We have audited the accompanying consolidated statements of financial position of Samsung Electro-Mechanics Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") as at December 31, 2013 and 2012, and the related consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, all expressed in Korea won. These consolidated 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 audits. We did not audit the financial statements of 10 subsidiaries that have been included in the accompanying consolidated financial statements, whose statements reflect total assets of ₩2,518,351 million and ₩2,381,009 million as at December 31, 2013 and 2012 and total sales of ₩3,713,332 million and ₩3,932,388 million for the years then ended (after elimination of intercompany transactions). These financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the 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 other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above expressed in Korean won present fairly, in all material respects, the consolidated financial position of Samsung Electro-Mechanics Co., Ltd. and its subsidiaries as at December 31, 2013 and 2012 and the consolidated results of their financial performance and cash flows for the years then ended in conformity with Korean International Financial Reporting Standards (KIFRS).

We have also reviewed the translation of the 2013 and 2012 consolidated financial statements mentioned above into United States dollar amounts on the basis described in Note 2 to the accompanying consolidated financial statements. In our opinion, such statements have been properly translated on such basis.

As mentioned in preceding paragraph, we have conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea which may vary among countries. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are knowledgeable about Korean auditing standards and their application in practice.

Ernst & Young Han Young

February 24, 2014

This audit report is effective as at February 24, 2014, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

Samsung Electro-Mechanics Co., Ltd.
Consolidated statements of financial position
As at December 31, 2013 and 2012

	Korean won		US dollars (Note 2)	
	2013	2012	2013	2012
Assets				
Current assets:				
Cash and cash equivalents (Note 4)	₩ 738,482,641,045	₩ 683,529,614,355	\$ 699,784,555	\$ 647,711,186
Current financial assets (Note 5)	33,727,492,614	26,154,638,461	31,960,099	24,784,079
Accounts and notes receivable (Notes 6 and 24)	861,415,706,146	1,024,431,671,514	816,275,663	970,749,242
Short-term loans receivable (Note 7)	761,861,628	6,501,103,186	721,938	6,160,431
Advanced payments	18,288,571,166	7,146,145,867	17,330,211	6,771,672
Prepaid expenses	35,555,757,457	24,388,159,282	33,692,559	23,110,167
Prepaid income taxes	74,474,195,045	21,117,970,828	70,571,586	20,011,344
Inventories, net (Note 8)	888,059,179,680	837,965,349,931	841,522,960	794,054,155
Total current assets	<u>2,650,765,404,781</u>	<u>2,631,234,653,424</u>	<u>2,511,859,571</u>	<u>2,493,352,276</u>
Non-current assets:				
Investment in associates (Note 9)	37,121,422,156	33,976,267,981	35,176,179	32,195,838
Available-for-sale financial assets (Note 10)	1,225,713,524,012	1,332,631,134,862	1,161,483,487	1,262,798,384
Long-term loans receivable (Note 7)	1,460,723,178	1,280,011,518	1,384,178	1,212,936
Property, plant and equipment (Notes 11,14 and 16)	2,949,835,002,770	2,586,182,957,464	2,795,257,275	2,450,661,383
Intangible assets, net (Note 12)	224,734,577,246	245,423,735,080	212,958,000	232,563,001
Non-current financial assets (Note 5)	50,048,237,276	39,571,944,058	47,425,602	37,498,289
Long-term prepaid expenses	26,713,878,546	7,710,643,666	25,314,014	7,306,589
Deferred income tax assets (Note 21)	18,950,207,615	13,453,003,087	17,957,176	12,748,037
Total non-current assets	<u>4,534,577,572,799</u>	<u>4,260,229,697,716</u>	<u>4,296,955,911</u>	<u>4,036,984,457</u>
Total assets	<u>₩ 7,185,342,977,580</u>	<u>₩ 6,891,464,351,140</u>	<u>\$ 6,808,815,482</u>	<u>\$ 6,530,336,733</u>
Liabilities and equity				
Current liabilities:				
Accounts and notes payable (Notes 13 and 24)	₩ 817,994,449,354	₩ 917,796,402,853	\$ 775,129,773	\$ 869,701,888
Short-term borrowings (Notes 14 and 16)	806,216,624,701	801,324,032,235	763,969,132	759,332,922
Advances received	5,462,494,691	4,311,911,214	5,176,248	4,085,958
Current financial liabilities (Note 5)	45,507,178,158	7,216,743,316	43,122,504	6,838,570
Income taxes payable	16,638,583,497	81,860,488,210	15,766,686	77,570,822
Current portion of long-term borrowings (Note 14)	90,592,004,683	140,265,466,048	85,844,788	132,915,253
Unearned income	78,410,135	2,088,557,462	74,301	1,979,113
Provision for product warranties	4,941,848,527	4,208,674,188	4,682,885	3,988,131
Total current liabilities	<u>1,787,431,593,746</u>	<u>1,959,072,275,526</u>	<u>1,693,766,317</u>	<u>1,856,412,657</u>
Non-current liabilities:				
Long-term borrowings (Note 14)	709,079,146,110	579,479,067,896	671,921,867	549,113,113
Long-term other accounts payable (Note 13)	7,778,882,479	21,963,663,353	7,371,253	20,812,720
Defined benefit liabilities (Note 15)	233,152,946,297	183,614,304,630	220,935,228	173,992,518
Deferred income tax liabilities (Note 21)	189,872,969,982	181,687,004,488	179,923,216	172,166,213
Total non-current liabilities	<u>1,139,883,944,868</u>	<u>966,744,040,367</u>	<u>1,080,151,564</u>	<u>916,084,564</u>
Total liabilities	<u>₩ 2,927,315,538,614</u>	<u>₩ 2,925,816,315,893</u>	<u>\$ 2,773,917,881</u>	<u>\$ 2,772,497,221</u>
Equity:				
Issued capital (Note 17)	₩ 388,003,400,000	₩ 388,003,400,000	\$ 367,671,184	\$ 367,671,184
Share premium (Note 17)	1,045,417,699,005	1,045,203,870,941	990,635,553	990,432,930
Other components of equity (Notes 17 and 18)	(1,633,914,346)	(1,839,888,396)	(1,548,294)	(1,743,474)
Accumulated other comprehensive income (Notes 10 and 17)	622,898,972,191	598,370,258,253	590,257,720	567,014,364
Other capital reserves (Note 17)	1,622,395,257,472	1,249,395,257,472	1,537,378,241	1,183,924,247
Retained earnings (Note 17)	496,980,112,013	615,262,804,873	470,937,280	583,021,705
Equity attributable to the equity owners of the parent	4,174,061,526,335	3,894,395,703,143	3,955,331,684	3,690,320,956
Non-controlling interests	83,965,912,631	71,252,332,104	79,565,917	67,518,556
Total equity	<u>4,258,027,438,966</u>	<u>3,965,648,035,247</u>	<u>4,034,897,601</u>	<u>3,757,839,512</u>
Total liabilities and equity	<u>₩ 7,185,342,977,580</u>	<u>₩ 6,891,464,351,140</u>	<u>\$ 6,808,815,482</u>	<u>\$ 6,530,336,733</u>

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

Samsung Electro-Mechanics Co., Ltd.
Consolidated statements of profit or loss and other comprehensive income
For the years ended December 31, 2013 and 2012

	Korean won		US dollars (Note 2)	
	2013	2012	2013	2012
Sales (Notes 3 and 24)	₩ 8,256,578,863,056	₩ 7,912,829,680,686	\$ 7,823,916,292	\$ 7,498,180,310
Cost of sales (Notes 19 and 24)	(6,709,262,376,347)	(6,393,423,644,445)	(6,357,682,532)	(6,058,394,432)
Gross profit	1,547,316,486,709	1,519,406,036,241	1,466,233,760	1,439,785,878
Selling and administrative expenses (Note 19)	(1,083,351,791,204)	(938,929,531,134)	(1,026,581,817)	(889,727,595)
Operating profit	463,964,695,505	580,476,505,107	439,651,943	550,058,283
Non-operating profit (Note 20)	292,186,064,561	301,920,225,640	276,874,884	286,098,954
Non-operating expenses (Note 20)	(320,148,080,043)	(298,968,185,297)	(303,371,629)	(283,301,606)
Profit before tax from continuing operations	436,002,680,023	583,428,545,450	413,155,198	552,855,631
Income tax expense (Note 21)	(90,310,319,694)	(158,318,850,475)	(85,577,864)	(150,022,601)
Profit for the year from continuing operations	345,692,360,329	425,109,694,975	327,577,334	402,833,030
Profit after tax for the year from discontinued operations (Note 28)	-	26,896,439,666	-	25,487,008
Profit for the year	₩ 345,692,360,329	₩ 452,006,134,641	\$ 327,577,334	\$ 428,320,038
Other comprehensive income				
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>				
Re-measurement gains/(losses) on defined benefit plans (Note 15)	2,147,572,850	(46,843,284,575)	2,035,035	(44,388,595)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Equity adjustments in equity method	140,311,606	(313,131,534)	132,959	(296,723)
Gain on valuation of available-for-sale financial assets (Note 10)	56,229,692,816	95,183,649,391	53,283,135	90,195,821
Loss from translation of foreign operations	(34,006,874,628)	(51,274,115,902)	(32,224,841)	(48,587,241)
Total comprehensive income, net of tax	₩ 370,203,062,973	₩ 448,759,252,021	\$ 350,803,622	\$ 425,243,300
Profit for the year from continuing operations:				
Owners of the parent	₩ 330,239,961,990	₩ 411,299,457,421	\$ 312,934,674	\$ 389,746,477
Non-controlling interests	15,452,398,339	13,810,237,554	14,642,660	13,086,552
Profit for the year attributable to:				
Owners of the parent	₩ 330,239,961,990	₩ 440,802,896,122	\$ 312,934,674	\$ 417,703,872
Non-controlling interests (Note 22)	15,452,398,339	11,203,238,519	14,642,660	10,616,165
Total comprehensive income attributable to:				
Owners of the parent	₩ 356,916,248,778	₩ 441,810,981,139	\$ 338,213,065	\$ 418,659,132
Non-controlling interests	13,286,814,195	6,948,270,882	12,590,557	6,584,167
Earnings per share (Note 23):				
Basic	₩ 4,257	₩ 5,685	\$ 4.03	\$ 5.39
Diluted	4,257	5,684	4.03	5.39
Earnings per share for continuing operations (Note 23):				
Basic	₩ 4,257	₩ 5,304	\$ 4.03	\$ 5.03
Diluted	4,257	5,303	4.03	5.03

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

Samsung Electro-Mechanics Co., Ltd.
Consolidated statements of changes in equity
For the years ended December 31, 2013 and 2012

Korean won									
Attributable to the equity holders of the parent									
	Issued capital	Share premium	Other components of equity	Accumulated other comprehensive income	Other capital reserves	Retained earnings	Equity owners of parent	Non-controlling interests	Total equity
As at January 1, 2012	₩ 388,003,400,000	₩ 1,045,746,728,763	₩ (5,799,449,338)	₩ 550,518,888,661	₩ 1,032,195,257,472	₩ 496,747,433,526	₩ 3,507,412,259,084	₩ 368,375,527,606	₩ 3,875,787,786,690
Profit for the year	-	-	-	-	-	440,802,896,122	440,802,896,122	11,203,238,519	452,006,134,641
Equity adjustments in equity method	-	-	-	(313,131,534)	-	-	(313,131,534)	-	(313,131,534)
Gain on valuation of available-for-sale financial assets	-	-	-	95,183,649,391	-	-	95,183,649,391	-	95,183,649,391
Loss from translation of foreign operations	-	-	-	(47,019,148,265)	-	-	(47,019,148,265)	(4,254,967,637)	(51,274,115,902)
Re-measurement losses on defined benefit plans	-	-	-	-	-	(46,843,284,575)	(46,843,284,575)	-	(46,843,284,575)
Total comprehensive income	-	-	-	47,851,369,592	-	393,959,611,547	441,810,981,139	6,948,270,882	448,759,252,021
Dividends	-	-	-	-	-	(58,244,240,200)	(58,244,240,200)	-	(58,244,240,200)
Issue of share capital	-	-	-	-	-	-	-	28,000,000	28,000,000
Change in consolidation of subsidiaries	-	-	-	-	-	-	-	(304,099,466,384)	(304,099,466,384)
Appropriation of retained earnings	-	-	-	-	217,200,000,000	(217,200,000,000)	-	-	-
Disposal of treasury stock	-	(542,857,822)	5,258,822,800	-	-	-	4,715,964,978	-	4,715,964,978
Exercise of stock options	-	-	(1,299,261,858)	-	-	-	(1,299,261,858)	-	(1,299,261,858)
At December 31, 2012	₩ 388,003,400,000	₩ 1,045,203,870,941	₩ (1,839,888,396)	₩ 598,370,258,253	₩ 1,249,395,257,472	₩ 615,262,804,873	₩ 3,894,395,703,143	₩ 71,252,332,104	₩ 3,965,648,035,247
As at January 1, 2013	₩ 388,003,400,000	₩ 1,045,203,870,941	₩ (1,839,888,396)	₩ 598,370,258,253	₩ 1,249,395,257,472	₩ 615,262,804,873	₩ 3,894,395,703,143	₩ 71,252,332,104	₩ 3,965,648,035,247
Profit for the year	-	-	-	-	-	330,239,961,990	330,239,961,990	15,452,398,339	345,692,360,329
Equity adjustments in equity method	-	-	-	140,311,606	-	-	140,311,606	-	140,311,606
Gain on valuation of available-for-sale financial assets	-	-	-	56,229,692,816	-	-	56,229,692,816	-	56,229,692,816
Loss from translation of foreign operations	-	-	-	(31,841,290,484)	-	-	(31,841,290,484)	(2,165,584,144)	(34,006,874,628)
Re-measurement gain on defined benefit plans	-	-	-	-	-	2,147,572,850	2,147,572,850	-	2,147,572,850
Total comprehensive income	-	-	-	24,528,713,938	-	332,387,534,840	356,916,248,778	13,286,814,195	370,203,062,973
Dividends	-	-	-	-	-	(77,670,227,700)	(77,670,227,700)	(1,512,047,931)	(79,182,275,631)
Issue of share capital by non-controlling interests	-	(105,292,604)	-	-	-	-	(105,292,604)	938,814,263	833,521,659
Appropriation of retained earnings	-	-	-	-	373,000,000,000	(373,000,000,000)	-	-	-
Disposal of treasury stock	-	319,120,668	441,658,400	-	-	-	760,779,068	-	760,779,068
Exercise of stock options	-	-	(235,684,350)	-	-	-	(235,684,350)	-	(235,684,350)
At December 31, 2013	₩ 388,003,400,000	₩ 1,045,417,699,005	₩ (1,633,914,346)	₩ 622,898,972,191	₩ 1,622,395,257,472	₩ 496,980,112,013	₩ 4,174,061,526,335	₩ 83,965,912,631	₩ 4,258,027,438,966

(Continued)

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

Samsung Electro-Mechanics Co., Ltd.
Consolidated statements of changes in equity
For the years ended December 31, 2013 and 2012

US dollars (Note 2)									
Attributable to the equity holders of the parent									
	Issued capital	Share premium	Other components of equity	Accumulated other comprehensive income	Other capital reserves	Retained earnings	Equity owners of parent	Non-controlling interests	Total equity
As at January 1, 2012	\$ 367,671,184	\$ 990,947,341	\$ (5,495,546)	\$ 521,670,509	\$ 978,105,996	\$ 470,716,795	\$ 3,323,616,279	\$ 349,071,854	\$ 3,672,688,133
Profit for the year	-	-	-	-	-	417,703,872	417,703,872	10,616,165	428,320,037
Equity adjustments in equity method	-	-	-	(296,723)	-	-	(296,723)	-	(296,723)
Gain on valuation of available-for-sale financial assets	-	-	-	90,195,821	-	-	90,195,821	-	90,195,821
Loss from translation of foreign operations	-	-	-	(44,555,243)	-	-	(44,555,243)	(4,031,998)	(48,587,241)
Re-measurement losses on defined benefit plans	-	-	-	-	-	(44,388,595)	(44,388,595)	-	(44,388,595)
Total comprehensive income	-	-	-	45,343,855	-	373,315,277	418,659,132	6,584,167	425,243,299
Dividends	-	-	-	-	-	(55,192,116)	(55,192,116)	-	(55,192,116)
Issue of share capital	-	-	-	-	-	-	-	26,533	26,533
Change in consolidation of subsidiaries	-	-	-	-	-	-	-	(288,163,998)	(288,163,998)
Appropriation of retained earnings	-	-	-	-	205,818,251	(205,818,251)	-	-	-
Disposal of treasury stock	-	(514,411)	4,983,250	-	-	-	4,468,839	-	4,468,839
Exercise of stock options	-	-	(1,231,178)	-	-	-	(1,231,178)	-	(1,231,178)
At December 31, 2012	\$ 367,671,184	\$ 990,432,930	\$ (1,743,474)	\$ 567,014,364	\$ 1,183,924,247	\$ 583,021,705	\$ 3,690,320,956	\$ 67,518,556	\$ 3,757,839,512
As at January 1, 2013	₩ 367,671,184	₩ 990,432,930	₩ (1,743,474)	₩ 567,014,364	₩ 1,183,924,247	₩ 583,021,705	₩ 3,690,320,956	₩ 67,518,556	₩ 3,757,839,512
Profit for the year	-	-	-	-	-	312,934,674	312,934,674	14,642,660	327,577,334
Equity adjustments in equity method	-	-	-	132,959	-	-	132,959	-	132,959
Gain on valuation of available-for-sale financial assets	-	-	-	53,283,135	-	-	53,283,135	-	53,283,135
Loss from translation of foreign operations	-	-	-	(30,172,738)	-	-	(30,172,738)	(2,052,103)	(32,224,841)
Re-measurement gain on defined benefit plans	-	-	-	-	-	2,035,035	2,035,035	-	2,035,035
Total comprehensive income	-	-	-	23,243,356	-	314,969,709	338,213,065	12,590,557	350,803,622
Dividends	-	-	-	-	-	(73,600,140)	(73,600,140)	(1,432,813)	(75,032,953)
Issue of share capital by non-controlling interests	-	(99,775)	-	-	-	-	(99,775)	889,617	789,842
Appropriation of retained earnings	-	-	-	-	353,453,994	(353,453,994)	-	-	-
Disposal of treasury stock	-	302,398	418,514	-	-	-	720,912	-	720,912
Exercise of stock options	-	-	(223,334)	-	-	-	(223,334)	-	(223,334)
At December 31, 2013	₩ 367,671,184	₩ 990,635,553	₩ (1,548,294)	₩ 590,257,720	₩ 1,537,378,241	₩ 470,937,280	₩ 3,955,331,684	₩ 79,565,917	₩ 4,034,897,601

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

Samsung Electro-Mechanics Co., Ltd.
Consolidated statements of cash flows
For the years ended December 31, 2013 and 2012

	Korean won		US dollars (Note 2)	
	2013	2012	2013	2012
Operating activities				
Profit for the year	₩ 345,692,360,329	₩ 452,006,134,641	\$ 327,577,334	\$ 428,320,037
Non-cash adjustments to reconcile profit for the year to net cash flows				
Loss (gain) on valuation of inventories	29,292,421,515	(23,561,919,774)	27,757,435	(22,327,224)
Loss on scrap of inventories	50,766,268,782	45,245,536,649	48,106,007	42,874,573
Provision for severance and retirement benefits	62,661,925,258	55,362,776,813	59,378,305	52,461,648
Allowance for doubtful accounts - trade	372,355,325	2,161,241,612	352,843	2,047,988
Depreciation	600,089,511,069	500,231,435,293	568,643,524	474,018,227
Amortization of intangible assets	19,166,324,951	18,625,784,160	18,161,968	17,649,753
Provision for product warranties	733,174,339	1,980,571,556	694,754	1,876,785
Gain on foreign currency translation, net	639,881,102	(5,970,067,273)	606,350	(5,657,223)
Reversal of allowance for doubtful accounts	(3,253,090,977)	(2,943,606,882)	(3,082,622)	(2,789,356)
Gain on disposal of property, plant and equipment, net	5,668,523,920	(252,432,140)	5,371,481	(239,204)
Loss on disposal of intangible assets	13,200,000	-	12,508	-
Loss on disposal of trade accounts and notes receivable	2,659,263,861	4,051,629,157	2,519,913	3,839,315
Impairment loss on property, plant and equipment, net	5,710,355,694	658,751,102	5,411,121	624,231
Finance costs	42,169,600,550	57,714,462,423	39,959,822	54,690,100
Finance income	(12,898,545,139)	(17,635,855,129)	(12,222,634)	(16,711,698)
Dividends income	(9,381,190,950)	(9,953,763,550)	(8,889,596)	(9,432,165)
Loss (gain) on valuation of equity method investments, net	(2,960,024,200)	2,763,332,555	(2,804,913)	2,618,528
Gain on disposal of investment in associates	-	(1,351,060,645)	-	(1,280,262)
Loss on disposal of available-for-sale financial assets, net	27,062,359,193	2,323,065,832	25,644,233	2,201,332
Impairment loss on available-for-sale financial assets, net	1,341,922,013	1,009,614,920	1,271,602	956,709
Gain on disposal of assets held for sale	-	(38,351,872,797)	-	(36,342,152)
Income tax expense	90,310,319,694	159,800,165,547	85,577,864	151,426,292
Working capital adjustments:				
Other financial assets	(1,000,810,008)	(787,587,267)	(948,365)	(746,316)
Accounts and notes receivable - trade	204,374,759,064	(145,162,462,303)	193,665,080	(137,555,636)
Other accounts receivable	(43,295,967,903)	(47,988,488,813)	(41,027,166)	(45,473,788)
Advance payments	(63,720,620,082)	8,564,656,646	(60,381,522)	8,115,850
Prepaid expenses	(11,167,598,175)	(3,851,726,889)	(10,582,392)	(3,649,888)
Inventories	(111,288,962,563)	68,078,543,134	(105,457,180)	64,511,080
Long-term prepaid expenses	(17,631,603,492)	(3,261,040,479)	(16,707,669)	(3,090,155)
Accounts and notes payable - trade	(82,378,099,111)	81,717,757,378	(78,061,309)	77,435,570
Other accounts payable	(91,066,214,780)	89,911,609,954	(86,294,148)	85,200,047
Advances received	1,159,506,394	1,118,718,110	1,098,746	1,060,095
Other financial liabilities	38,086,032,404	(24,309,663,978)	36,090,242	(23,035,785)
Unearned income	(1,968,979,127)	(43,501,894)	(1,865,800)	(41,222)
Long-term other accounts payable	(842,349,074)	(9,740,264,084)	(798,208)	(9,229,853)
Defined benefit liabilities	(118,160,831)	(103,507,676)	(111,969)	(98,084)
Succession of defined benefit liability	1,634,158,330	1,764,901,923	1,548,525	1,672,417
Severance and retirement benefit paid	(11,541,321,179)	(9,272,918,008)	(10,936,531)	(8,786,997)
	1,065,090,686,196	1,210,548,949,824	1,009,277,633	1,147,113,569
Interest received	11,962,058,238	15,814,442,785	11,335,221	14,985,732
Income tax paid	(172,582,686,446)	(106,999,333,181)	(163,538,981)	(101,392,337)
Net cash flows from operating activities	904,470,057,988	1,119,364,059,428	857,073,873	1,060,706,964

(Continued)

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

Samsung Electro-Mechanics Co., Ltd.
Consolidated statements of cash flows
For the years ended December 31, 2013 and 2012

	Korean won		US dollars (Note 2)	
	2013	2012	2013	2012
Investing activities				
Decrease in other financial assets, net	₩ (17,534,823,167)	₩ 22,814,330,769	\$ (16,615,961)	\$ 21,618,811
Decrease (increase) in short-term loans receivable, net	1,558,951,089	(2,716,189,980)	1,477,259	(2,573,856)
Disposal of investment in associates	-	3,974,384,153	-	3,766,118
Acquisition of investment in associates	-	(15,000,000,000)	-	(14,213,968)
Disposal (acquisition) of investment in subsidiaries	13,416,049	(133,262,832,673)	12,713	(126,279,572)
Proceeds from disposal of available-for-sale financial assets	158,073,298,300	342,108,096,062	149,789,916	324,180,893
Acquisition of available-for-sale financial assets	(4,392,800,000)	(59,091,411,904)	(4,162,608)	(55,994,894)
Decrease (increase) in long-term loans receivable, net	618,694,098	(4,416,831,136)	586,273	(4,185,380)
Proceeds from disposal of property, plant and equipment	20,492,798,259	49,871,134,746	19,418,931	47,257,780
Acquisition of property, plant and equipment	(961,414,776,534)	(906,771,895,016)	(911,034,565)	(859,255,089)
Proceeds from disposal of intangible assets	747,308,275	1,830,010,000	708,148	1,734,114
Acquisition of intangible assets	(22,757,883,422)	(10,939,083,397)	(21,565,321)	(10,365,852)
Receipt of government grants	351,348,178	-	332,937	-
Dividends received	9,381,190,950	9,953,718,350	8,889,596	9,432,122
Net cash flows used in investing activities	(814,863,277,925)	(701,646,570,026)	(772,162,682)	(664,878,773)
Financing activities				
Drawdown of short-term borrowings	281,759,224,744	543,257,253,115	266,994,433	514,789,399
Repayment of short-term borrowings	(212,081,701,277)	(593,797,069,875)	(200,968,162)	(562,680,821)
Repayment of current portion of long-term borrowings	(132,184,680,000)	(321,518,423,498)	(125,257,917)	(304,670,163)
Drawdown of long-term borrowings	300,752,262,882	386,377,008,707	284,992,195	366,130,019
Repayment of long-term borrowings	(75,737,330,966)	(191,377,254,330)	(71,768,531)	(181,348,673)
Proceeds from disposal of treasury stock	452,510,000	4,565,361,858	428,797	4,326,127
Exercise of stock options	-	(1,299,261,858)	-	(1,231,178)
Issue of share capital by non-controlling interests	833,521,659	28,000,000	789,843	26,533
Interest paid	(43,764,331,959)	(61,524,192,235)	(41,470,986)	(58,300,192)
Payment of dividends	(79,082,437,060)	(58,246,005,860)	(74,938,346)	(55,193,789)
Net cash flows from (used in) financing activities	40,947,038,023	(293,534,583,976)	38,801,326	(278,152,738)
Net increase in cash and cash equivalents	130,553,818,086	124,182,905,426	123,712,517	117,675,453
Cash and cash equivalents at the beginning of the year	683,529,614,355	525,902,243,565	647,711,186	498,343,830
Net decrease in cash and cash equivalents denominated in foreign currencies arising from foreign exchange differences	(75,600,791,396)	(50,943,117,669)	(71,639,148)	(48,273,588)
Cash and cash equivalents related to discontinued operations	-	84,387,583,033	-	79,965,491
Cash and cash equivalents at the end of the year	₩ 738,482,641,045	₩ 683,529,614,355	\$ 699,784,555	\$ 647,711,186

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

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

1. Organization and business

The Company

Samsung Electro-Mechanics Co., Ltd. (the “Company”) was incorporated on August 8, 1973 under the laws of the Republic of Korea to engage in manufacture and sales of various electronic components. The Company’s ordinary shares have been listed on the Korea Exchange (KRX) since 1979.

The Company’s manufacturing plants are located in Suwon, Gyunggi-do, Busan, Gyeongsangnam-do and Sejong Special Self-Governing City. The Company maintains its overseas business operations through 18 overseas direct subsidiaries and 3 overseas indirect subsidiaries located in the Americas, Europe and Asia.

Consolidated subsidiaries

Details of consolidated subsidiaries as at December 31, 2013 are as follows (Korean won in thousands):

Subsidiary	Issued capital	Number of shares	Equity interest	Principal activities	Domicile
Tianjin Samsung Electro-Mechanics Co., Ltd. (*1)	₩ 103,345,689	-	81.76%	Manufacturing and trading	China
Samsung High Tech Electronics (Tianjin) Co., Ltd. (*1)	38,972,998	-	95.00%	Manufacturing and trading	China
Dongguan Samsung Electro-Mechanics Co., Ltd. (*1)	73,534,869	-	100.00%	Manufacturing and trading	China
Kunshan Samsung Electro-Mechanics Co., Ltd. (*1)	141,477,200	-	100.00%	Manufacturing and trading	China
Samsung Electro-Mechanics Thailand Co., Ltd.	13,130,733	3,181,869	75.00%	Manufacturing and trading	Thailand
Samsung Electro-Mechanics Nakhonratchasima Co., Ltd.	88,285,922	1,250,000	100.00%	Manufacturing and trading	Thailand
Samsung Electro-Mechanics Philippines, Corp.	53,917,212	4,046,711	100.00%	Manufacturing and trading	Philippines
Calamba Premier Realty Corp. (*2)	3,383	398	39.80%	Real estate	Philippines
Samsung Electro-Mechanics America Inc. (*3)	3,420,160	5,000	100.00%	Trading	US
Samsung Electro-Mechanics do Brasil intermediacoes de Negocios Ltda (*1)	233,520	-	100.00%	Trading	Brazil
Samsung Electro-Mechanics Germany, GmbH (*1)	3,089,662	-	100.00%	Trading	Germany
Samsung Portugal Produtos Electro-Mechanicos, S.A. (*7)	10,591,700	1,304,389	75.85%	Manufacturing and trading	Portugal
Samsung Electro-Mechanics Hungary Inc.	2,478,280	13,800	100.00%	Real estate	Hungary
Samsung Electro-Mechanics Pte Ltd.	1,215,800	1,760,200	100.00%	Trading	Singapore
Samsung Electro-Mechanics Hong Kong Co., Ltd.	3,787,360	23,310,000	100.00%	Trading	Hongkong
Samsung Electro-Mechanics (Shenzen) Co., Ltd. (*1)(*5)	2,368,283	-	100.00%	Marketing and trading	China

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

1. Organization and business (cont'd)

Consolidated subsidiaries (cont'd)

Samsung Electro-Mechanics Japan Co., Ltd.	4,696,119	330,000	100.00%	Trading	Japan
Samsung Electro-Mechanics Japan Advanced Technology Co., Ltd.(Alphana Technology Co., Ltd.) (*4)	99,559,277	309,891	100.00%	Research and development	Japan
Samsung Venture Investment Co., Ltd. (SVIC#19) (*1)	12,530,000	-	99.00%	Investment	Korea
Batino Realty Corp (*2)	2,704	1,000	39.80%	Real estate	Philippines
Samsung Electro-Mechanics Vietnam Co., Ltd (*1), (*6)	10,621,000	-	100.00%	Manufacturing and trading	Vietnam

(*1) These subsidiaries are limited liability entities that do not issue shares in accordance with local law.

(*2) Calamba Premier Realty Corp. is a direct subsidiary which wholly owns Batino Realty Corp. Calamba Premier Realty Corp. acquired 100% interest of Batino Realty Corp. in 2013. Although equity interests in Calamba Premier Realty Corp. and Batino Realty Corp. are less than 50%, the Company holds *de facto* control. Retirement pension for the employees of Samsung Electro-Mechanics Philippines, Corp. owns more than 50% of the equity interests.

(*3) Samsung Electro-Mechanics America Inc. is a direct subsidiary which wholly owns Samsung Electro-Mechanics do Brasil Intermediacoes de Negocios Ltda.

(*4) Alphana Technology Co., Ltd. is a direct subsidiary which wholly owns Samsung Electro-Mechanics Nakhonratchasima Co., Ltd.

(*5) The Company acquired 100% of ordinary shares of Samsung Electro-Mechanics (Shenzen) Co., Ltd. from Samsung Electro-Mechanics Hong Kong Co., Ltd. in 2013.

(*6) The Company newly incorporated Samsung Electro-Mechanics Vietnam Co., Ltd. in 2013.

(*7) Although equity interest in the subsidiary is 75.85%, the Company does not have control on Samsung Portugal Produtos Electro-Mechanicos, S.A. which has filed for bankruptcy procedures, and consequently, was excluded from consolidation.

Subsidiaries included in consolidation for the year ended December 31, 2013 are as follows:

<u>Subsidiary</u>	<u>Reason</u>
Samsung Electro-Mechanics Vietnam co., Ltd.	Newly incorporated
Batino Realty Corp.	Acquisition

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

1. Organization and business (cont'd)

Consolidated subsidiaries (cont'd)

The summary of the consolidated subsidiaries' financial position as at December 31, 2013 and the results of their financial performance for the year then ended, which have been included in the accompanying consolidated financial statements are as follows (Korean won in thousands):

Subsidiary	Total assets		Total liabilities		Sales		Profit (loss) for the year
Tianjin Samsung Electro-Mechanics Co., Ltd.	₩	734,643,109	₩	457,164,535	₩	1,338,176,270	₩ 39,784,157
Samsung High Tech Electronics (Tianjin) Co., Ltd.		441,305,462		258,340,916		1,837,694,244	57,002,967
Dongguan Samsung Electro-Mechanics Co., Ltd.		416,065,796		246,916,367		1,365,123,653	29,904,559
Kunshan Samsung Electro-Mechanics Co., Ltd.		404,414,215		260,782,721		187,120,965	4,680,063
Samsung Electro-Mechanics Thailand Co., Ltd.		203,704,624		103,752,959		758,954,865	23,272,661
Samsung Electro-Mechanics Nakhonratchasima Co., Ltd.		138,595,084		163,647,335		243,133,218	(48,148,611)
Samsung Electro-Mechanics Philippines, Corp.		354,857,337		208,962,847		582,017,550	11,663,855
Calamba Premier Realty Corp.		8,246,184		6,500,896		-	59,193
Samsung Electro-Mechanics America Inc.		64,655,691		55,680,189		385,340,751	1,158,992
Samsung Electro-Mechanics do Brasil intermediacoes de Negocios Ltda		219,972		27,088		917,766	(15,170)
Samsung Electro-Mechanics Germany, GmbH		79,713,059		58,138,701		341,582,762	813,973
Samsung Electro-Mechanics Hungary Inc.		6,445,843		1,649,762		837,331	74,131
Samsung Electro-Mechanics Pte Ltd.		50,611,572		42,412,529		360,671,987	2,152,467
Samsung Electro-Mechanics Hong Kong Co., Ltd.		4,015,330		231,278		19,234,894	(2,372,384)
Samsung Electro-Mechanics (Shenzen) Co., Ltd.		13,376,997		9,210,189		14,950,149	(147,218)
Samsung Electro-Mechanics Japan Co., Ltd.		18,707,511		15,184,349		56,136,373	(186,064)
Samsung Electro-Mechanics Japan Advanced Technology Co., Ltd.		246,525,825		134,623,885		159,063,275	(1,617,434)
Samsung Venture Investment Co., Ltd. (SVIC#19)		7,963,480		194,706		-	(1,682,609)
Batino Realty Corp.		4,828,788		4,551,306		-	116,306
Samsung Electro-Mechanics Vietnam Co., Ltd.		52,778,658		42,276,185		-	(52,426)

2. Summary of significant accounting policies

Basis of financial statements preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value and when otherwise noted. The consolidated financial statements are presented in Korean won with all values rounded to the nearest thousand, except when otherwise indicated.

Statement of compliance

Samsung Electro-Mechanics Co., Ltd. and its subsidiaries (collectively referred to as the “Group”) prepare statutory financial statements in the Korean language in accordance with Korea International Financial Reporting Standards (KIFRS) enacted by the *Corporate External Audit Law*. The accompanying consolidated financial statements have been translated into English from the Korean financial statements. In the event of differences in interpreting the financial statements or the independent auditor’s report thereon, the Korean version, which is used for regulatory purposes, shall prevail.

Principles of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at December 31, 2013. Control is achieved when the Group 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. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

2. Summary of significant accounting policies (cont'd)

Principles of consolidation (cont'd)

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of KIFRS 1039 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of KIFRS 1039, it is measured in accordance with the appropriate KIFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

2. Summary of significant accounting policies (cont'd)

Business combinations and goodwill (cont'd)

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Immediate sales is considered highly likely if management is committed to sale at the reporting date and conditions required to complete such sales are expected to be satisfied within a year from the date assets or disposal group are designated as held for sale.

Income and expenses from discontinued operations are reported separate from income and expenses from continuing operations, down to the level of profit after taxes, even if the Group retains a non-controlling interest in the subsidiary after the sale.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in its associate and are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of profit or loss and other comprehensive income reflects the share of the results of financial performance of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the statements of profit or loss and other comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

2. Summary of significant accounting policies (cont'd)

Investment in an associate (cont'd)

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associates. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the statements of profit or loss and other comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

Foreign currency translation

The Company's consolidated financial statements are presented in Korean won, which is also its functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Foreign operations

The assets and liabilities of foreign operations are translated into Korean won at the rate of exchange prevailing at the reporting date and their statements of profit or loss and other comprehensive incomes are translated at average exchange rate during the applicable period. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the gain or loss on translation of foreign operations recorded in other comprehensive income is reclassified to the statements of profit or loss and other comprehensive income.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

2. Summary of significant accounting policies (cont'd)

Revenue recognition (cont'd)

Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statements of profit or loss and other comprehensive income.

Dividends

Revenue from dividends is recognized when the Group's right to receive the payment is established.

Other revenue

The Group recognizes revenue when amount of revenue is earned, can be reliably measured, and it is probable that future economic benefits will flow into the Group.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statements of profit or loss and other comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill.
- When the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. Summary of significant accounting policies (cont'd)

Taxes (cont'd)

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants, which is used for the acquisition of certain assets, is accounted for as a deduction from the acquisition cost of the acquired assets. Such grants amount is offset against the depreciation or amortization of the acquired assets during such assets' useful life.

Pension benefits and other post-employment benefits

The Group operates a defined benefit pension plan in Korea, the cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

2. Summary of significant accounting policies (cont'd)

Pension benefits and other post-employment benefits (cont'd)

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under 'cost of sales' and 'Selling and administrative expenses' in consolidated statement of profit or loss and other comprehensive income.

Share-based payment transactions

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. In the the statement of profit or loss and other comprehensive income, expense or credit for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

2. Summary of significant accounting policies (cont'd)

Financial instruments : Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

• Initial recognition and measurement

Financial assets within the scope of *KIFRS 1039* are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

• Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

• Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by *KIFRS 1039*. The Group has not designated any financial assets at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2. Summary of significant accounting policies (cont'd)

Financial instruments : Initial recognition and subsequent measurement (cont'd)

• Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognized in the statement of profit or loss and other comprehensive income in finance costs.

• Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance income in the statement of profit or loss and other comprehensive income.

• Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is recognized in the statements of profit or loss and other comprehensive income in finance costs and removed from the available-for-sale reserve.

The Group evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intent to hold until the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the statements of profit or loss and other comprehensive income.

2. Summary of significant accounting policies (cont'd)

Financial instruments : Initial recognition and subsequent measurement (cont'd)

• Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

• Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

2. Summary of significant accounting policies (cont'd)

Financial instruments : Initial recognition and subsequent measurement (cont'd)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in statement of profit or loss and other comprehensive income. Interest income (recorded as finance income in the statement of profit or loss and other comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss and other comprehensive income.

• Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statements of profit or loss and other comprehensive income – is removed from other comprehensive income and recognized in the statements of profit or loss and other comprehensive income. Impairment losses on equity investments are not reversed through the statements of profit or loss and other comprehensive income; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss and other comprehensive income. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statements of profit or loss and other comprehensive income, the impairment loss is reversed through the statement of profit or loss and other comprehensive income.

2. Summary of significant accounting policies (cont'd)

Financial liabilities

• Initial recognition and measurement

Financial liabilities within the scope of *KIFRS 1039* are classified at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings and payable, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, borrowings and etc.

• Subsequent measurement

The measurement of financial liabilities depends on their classification.

• Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by *KIFRS 1039*. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of profit or loss and other comprehensive income. The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

• Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statements of profit or loss and other comprehensive income.

• Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of profit or loss and other comprehensive income.

• Offsetting of financial instruments

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

2. Summary of significant accounting policies (cont'd)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the statements of profit or loss and other comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in other capital reserves.

2. Summary of significant accounting policies (cont'd)

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statements of profit or loss and other comprehensive income as incurred.

Depreciation of property, plant and equipment is provided using the straight-line method over the estimated useful life of the assets as follows:

	<u>Years</u>
Buildings	10 - 50
Structures	7 - 50
Machinery	2 - 8
Equipment	2 - 12
Vehicles	3 - 6

Leases

The determination of whether an arrangement is, (or contains), a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for (i) whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or (ii) the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

2. Summary of significant accounting policies (cont'd)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statements of profit or loss and other comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statements of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss and other comprehensive income when the asset is derecognized.

• **Research and development costs**

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

2. Summary of significant accounting policies (cont'd)

Intangible assets (cont'd)

• Goodwill

Goodwill is accounted for as an intangible asset and is initially measured consideration paid which exceeds the cost of the investment over the Company's share of the fair value of the subsidiary's net identifiable assets.

• Patents, licenses, software and membership

The patents have been granted for a period of 10 years by the relevant government agency with the option of renewal at the end of this period. Licenses for the use of intellectual property and software are granted for periods 5 and 4 years, respectively. Memberships for usage rights that are not kept for investment purposes, are regarded to have indefinite useful lives and are not amortized.

A summary of the policies applied to the Group's intangible assets is as follows:

	<u>Amortization methods</u>	<u>Estimated useful lives</u>
Development costs	amortized using straight-line method over their expected sales period	5 years
Patents		10 years
Industrial proprietary rights	amortized using straight-line method over the licensed period	5 years
Other intangible assets		5 years
Software	amortized using straight-line method over their useful lives	4 years
Membership	not amortized	indefinite
Goodwill	not amortized	indefinite

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost being determined using the moving weighted-average method. A perpetual inventory system is used to record inventories, in which inventories are adjusted to physical inventory counts that are performed at the end of the year. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators

2. Summary of significant accounting policies (cont'd)

Impairment of non-financial assets(cont'd)

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset, except for property previously revalued with the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

- Goodwill

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. When the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

- Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short term deposits as defined above, net of outstanding bank overdrafts. The consolidated statements of cash flows include cash flows from discontinued operations.

2. Summary of significant accounting policies (cont'd)

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) 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. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

The Group accrues provision for warranty corresponding to the estimated costs of future repairs and returns, based on the past experience. The provision for product warranties is charged to selling and administrative expenses when the goods covered by warranties are sold to customers.

Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

- **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond control of the Group. Such changes are reflected in the assumptions when they occur.

- **Impairment of non-financial assets**

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model.

- **Share-based payment transactions**

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the grant date. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

2. Summary of significant accounting policies (cont'd)

Significant accounting judgments, estimates and assumptions (cont'd)

• Pension benefits

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

• Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to KIFRS effective as at January 1, 2013:

KIFRS 1112 Disclosure of Interests in Other Entities

KIFRS 1112 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in KIFRS 1112 are more comprehensive than the previously existing disclosure requirements for subsidiaries, for example, where a subsidiary is controlled with less than a majority of voting rights. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities.

KIFRS 1113 Fair Value Measurement

KIFRS 1113 establishes a single source of guidance under KIFRS for all fair value measurements. KIFRS 1113 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under KIFRS. KIFRS 1113 defines fair value as an exit price. As a result of the guidance in KIFRS 1113, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. KIFRS 1113 also requires additional disclosures.

Application of KIFRS 1113 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 27.

2. Summary of significant accounting policies (cont'd)

New and amended standards and interpretations(cont'd)

KIFRS 1001 Presentation of Items of Other Comprehensive Income

- Amendments to KIFRS 1001

The amendments to KIFRS 1001 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g. net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g. revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at January 1, 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. The amendments affect presentation only and have no impact on the Group's financial position or performance.

KIFRS 1019 Employee Benefits (Revised 2011)

KIFRS 1019 revisions include a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognized in profit or loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized.

Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

KIFRS 1019 (Revised 2011) also requires more extensive disclosures. These have been provided in Note 15.

KIFRS 1019 (Revised 2011) has been applied retrospectively, with following permitted exceptions:

- The carrying amounts of other assets have not been adjusted for changes in employee benefit costs that were included before January 1, 2012
- Sensitivity disclosures for the defined benefit obligation for comparative period (year ended December 31, 2012) have not been provided

2. Summary of significant accounting policies (cont'd)

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below.

Investment Entities (Amendments to KIFRS 1110, KIFRS 1112 and KIFRS 1027)

These amendments are effective for annual periods beginning on or after January 1, 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under KIFRS 1110. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under KIFRS 1110.

KIFRS 1032 Offsetting Financial Assets and Financial Liabilities - Amendments

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Group.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to KIFRS 1036 Impairment of Assets

These amendments remove the unintended consequences of KIFRS 1113 on the disclosures required under KIFRS 1036. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014.

KIFRS 1039 Novation of Derivatives and Continuation of Hedge Accounting – Amendments

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

KIFRS 2121 Levies – Amendments

KIFRS 2121 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. KIFRS 2121 is effective for annual periods beginning on or after January 1, 2014.

Reclassification of accounts

The Group had previously recognized indirect expenses allocated to royalty revenue within cost of sales. Starting from the beginning of the current reporting period, the Group elected to recognize such expenses within selling and administrative expenses, with such change in policies having no impact on operating profit.

The Group reclassified indirect expenses amounting to ₩130,477,060 thousand within selling and administrative expenses for the year ended December 31, 2012. The resulting reclassification increased the equivalent amount in gross profit on the statement of profit or loss and other comprehensive income for the year ended December 31, 2012, presented for comparative purposes.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

2. Summary of significant accounting policies (cont'd)

Approval of the financial statements

Approval of the consolidated financial statements of the Group for the year ended December 31, 2013 were approved by the Board of directors' meeting on January 27 2014 for submission to the general shareholders' meeting.

3. Operating segment information

The Group has four reportable operating segments, which are organized based on each segment's manufactured goods and sales.

- Linkage magnetic flux coil Capacitor Resister ("LCR") operating segment: Multi Layer Ceramic Capacitor ("MLCC"), Chip Inductor, Chip Resistor, Crystal and others.
- Advanced circuit interconnection ("ACT") operating segment: Package ("PKG") (Ball Grid Array ("BGA"), Flip Chip Ball Grid Array ("F/C BGA")), Mainboard and others.
- Circuit Drive Solution ("CDS") operating segment: Power Module, Tuner Module, Network Module and others.
- Opto & Mechatronics Solution ("OMS") operating segment: Image Sensor Module ("ISM"), Micro Motor and others.

The following table summarizes the results of financial performance of the Group by operating segments for the years ended December 31, 2013 and 2012 (Korean won in millions):

	2013					
	LCR	ACI	CDS	OMS	Adjustments	Consolidated
Total sales	₩ 3,952,527	₩ 2,577,834	₩ 3,113,840	₩ 4,266,724	₩ (5,654,346)	₩ 8,256,579
Inter-segment sales	2,034,354	687,880	1,375,899	1,556,213	(5,654,346)	-
Sales to external customers	1,918,173	1,889,954	1,737,941	2,710,511	-	8,256,579
Operating profit	140,673	160,213	14,223	138,082	10,774	463,965
Profit for the year	97,887	119,421	11,246	107,022	10,116	345,692

	2012					
	LCR	ACI	CDS	OMS	Adjustments	Consolidated
Total sales	₩ 3,184,158	₩ 3,525,128	₩ 2,916,641	₩ 3,637,972	₩ (5,351,069)	₩ 7,912,830
Inter-segment sales	1,284,257	1,423,385	1,177,234	1,466,193	(5,351,069)	-
Sales to external customers	1,899,901	2,101,743	1,739,407	2,171,779	-	7,912,830
Operating profit	118,821	355,497	47,908	73,964	(15,714)	580,477
Profit for the year from continuing operations	89,703	252,743	41,604	54,591	(13,532)	425,110

Total assets and liabilities of the Group by operating segments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

	2013					
	LCR	ACI	CDS	OMS	Adjustments	Consolidated
Total assets	₩ 3,234,406	₩ 3,455,501	₩ 924,252	₩ 1,260,766	₩ (1,689,582)	₩ 7,185,343
Total liabilities	1,389,836	860,169	833,560	632,223	(788,472)	2,927,316

	2012					
	LCR	ACI	CDS	OMS	Adjustments	Consolidated
Total assets	₩ 3,463,813	₩ 2,493,480	₩ 1,083,382	₩ 1,550,109	₩ (1,699,320)	₩ 6,891,464
Total liabilities	1,535,067	671,222	706,514	1,048,683	(1,035,670)	2,925,816

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

3. Operating segment information (cont'd)

Geographic information is as follows:

	Major products	Major customer
Korea	MLCC, BGA, ISM, HDI and others	Samsung Electronics Co., Ltd., Samsung SDI Co., Ltd., LG Electronics Inc., and etc.
China and Southeast Asia	MLCC, BGA, ISM, HDI and others	STATS Chippac Ltd., Yosun Industrial Corp., and etc.
Japan	Micro Motor and others	Seagate, Western Digital, and etc.
America	MLCC, BGA, ISM, HDI and others	Intel Corporation, Amkor Technology, Inc., and etc.
Europe	MLCC, BGA, ISM, HDI and others	UNIQUE, Nokia, and etc.

The following table summarizes the results of financial performance of the Group by geographic segments for the years ended December 31, 2013 and 2012 (Korean won in millions):

	2013									
	Korea			Overseas						Consolidated
	Domestic	Export	China	Southeast Asia	America	Europe	Japan	Adjustment		
Total sales	₩ 515,183	₩ 5,744,785	₩ 4,762,301	₩ 1,944,778	₩ 386,258	₩ 342,420	₩ 215,200	₩ (5,654,346)	₩ 8,256,579	
Inter-segment sales	-	2,138,121	2,185,348	1,291,800	5,734	2,002	31,341	(5,654,346)	-	
Sales to external customers	515,183	3,606,664	2,576,953	652,978	380,524	340,418	183,859	-	8,256,579	
Operating profit		282,210	179,683	(12,202)	2,895	1,208	(603)	10,774	463,965	
Profit for the year		208,969	133,050	(9,035)	2,144	894	(446)	10,116	345,692	
	2012									
	Korea			Overseas						Consolidated
	Domestic	Export	China	Southeast Asia	America	Europe	Japan	Adjustment		
Total sales	₩ 494,616	₩ 5,416,058	₩ 4,454,945	₩ 1,659,227	₩ 666,725	₩ 348,862	₩ 223,466	₩ (5,351,069)	₩ 7,912,830	
Inter-segment sales	-	2,226,409	2,044,305	1,068,184	7,749	4,342	80	(5,351,069)	-	
Sales to external customers	494,616	3,189,649	2,410,640	591,043	658,976	344,520	223,386	-	7,912,830	
Operating profit		402,383	189,571	26,388	2,518	6,987	(31,657)	(15,714)	580,477	
Profit for the year from continuing operations		296,050	139,475	19,415	1,853	5,141	(23,292)	(13,532)	425,110	

Non-current assets of the Group by geographic segments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

	2013							
	Domestic	China	Southeast Asia	America	Europe	Japan	Adjustments	Consolidated
Non-current assets	₩ 3,821,399	₩ 1,013,075	₩ 384,926	₩ 1,715	₩ 7,760	₩ 195,964	₩ (890,261)	₩ 4,534,578
	2012							
	Domestic	China	Southeast Asia	America	Europe	Japan	Adjustments	Consolidated
Non-current assets	₩ 3,802,774	₩ 759,157	₩ 269,928	₩ 1,324	₩ 6,730	₩ 260,362	₩ (840,045)	₩ 4,260,230

Sales from Samsung Electronics Co., Ltd., from which the Group generates more than 10% of its total sales, amounted to ₩4,647 billion for the year ended December 31, 2013.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

4. Cash and cash equivalents

Cash and cash equivalents as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
Cash at banks and on hand	₩	40,866	₩	46,567
Short-term deposits		738,441,775		683,483,047
Total	₩	738,482,641	₩	683,529,614

5. Financial assets and liabilities

Financial assets and liabilities as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
	Current	Non-current	Current	Non-current
Financial assets:				
Financial instruments	₩ 30,155,403	₩ 29,000	₩ 23,059,981	₩ 29,000
Held-to-maturity investments	19,835	341,545	26,315	335,455
Accrued income	1,289,408	-	1,683,909	-
Business guarantee deposits	2,262,847	-	1,384,433	-
Lease guarantee deposits	-	49,677,692	-	39,207,489
Total	₩ 33,727,493	₩ 50,048,237	₩ 26,154,638	₩ 39,571,944
Financial liabilities:				
Withholdings	₩ 40,115,972	₩ -	₩ 5,807,802	₩ -
Withholding deposits	5,391,206	-	1,408,941	-
Total	₩ 45,507,178	₩ -	₩ 7,216,743	₩ -

Restricted deposits as at December 31, 2013 and 2012 consist of the following (Korean won in thousands):

	Financial institution	2013		2012		Description
		₩		₩		
Short-term financial instruments	Woori Bank	₩ 30,155,403		₩ 23,059,981		Financial support reserve for strategic alliances
Long-term financial instruments	Eight banks including Woori Bank		29,000		29,000	Overdraft facilities
Total		₩ 30,184,403		₩ 23,088,981		

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

5. Financial assets and liabilities (cont'd)

Held-to-maturity investments as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
	Fair value	Book value	Fair value	Book value
Within 1 year	₩ 19,835	₩ 19,835	₩ 26,315	₩ 26,315
After 1 year but less than 5 years	341,545	341,545	335,455	335,455
Total	₩ 361,380	₩ 361,380	₩ 361,770	₩ 361,770

Financial assets measured at amortized cost using the effective interest rate method as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
	Effective interest rate (%)	Book value	Effective interest rate (%)	Book value
Long-term guarantee deposits	2.78 ~ 4.24	₩ 49,677,692	3.72 ~ 4.24	₩ 39,207,489

6. Accounts and notes receivable

Accounts and notes receivable as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
Accounts and notes receivable - trade	₩	724,899,295	₩	931,330,927
Allowance for doubtful accounts		(538,257)		(199,913)
Other accounts receivable		138,134,157		94,798,414
Allowance for doubtful accounts		(1,079,489)		(1,497,756)
Total	₩	861,415,706	₩	1,024,431,672

The changes in allowance for doubtful accounts for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
As of January 1,	₩	1,697,669	₩	11,511,839
Provision for the year-trade		372,355		1,066,204
Reversal - non-trade		(323,216)		(2,754,607)
Write-off		(129,062)		(8,125,767)
As at December 31,	₩	1,617,746	₩	1,697,669

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

6. Accounts and notes receivable (cont'd)

As at December 31, 2013 and 2012, the aging analysis of accounts and notes receivables is as follows (Korean won in thousands):

	2013		2012	
Neither past due nor impaired	₩	848,198,326	₩	1,007,264,371
Past due but not impaired:				
< 30 days		6,031,830		11,995,176
30~180 days		6,441,958		2,802,428
181~365 days		136,588		1,546,895
> 365 days		607,004		822,802
Sub total		13,217,380		17,167,301
Total	₩	861,415,706	₩	1,024,431,672

The Group disposed of its accounts receivable in 2012 and 2013 in accordance with a factoring agreement entered into with various financial institutions. The Group did not derecognize the accounts receivable, as the financial institutions hold recourse rights and the Group retains the related risk and rewards. The Financial liability was recognized as short term borrowings on the statements of financial position for the years ended December 31, 2013 and 2012 (Note 14).

Accounts receivable factored with recourse as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
Book value of accounts receivable disposed	₩	213,115,395	₩	146,296,165
Book value of related borrowings		213,115,395		146,296,165

7. Short-term and long-term loans receivable

Short-term and long-term loans receivable as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	Interest rate as of 2013.12.31 (%)	2013		2012	
		Current	Non-current	Current	Non-current
Cosmolink Co., Ltd.	-	₩ -	₩ -	₩ 1,071,000	₩ 11,340,000
Overseas employees	-	761,862	1,460,723	532,512	1,280,012
Overseas companies	-	-	-	5,899,883	-
Other companies	-	-	-	68,708	-
Sub total		₩ 761,862	₩ 1,460,723	₩ 7,572,103	₩ 12,620,012
Allowance for doubtful accounts		-	-	(1,071,000)	(11,340,000)
Total		₩ 761,862	₩ 1,460,723	₩ 6,501,103	₩ 1,280,012

Short-term and long-term loans receivables measured at amortized cost using the effective interest rate method as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
	Effective interest rate (%)	Book value	Effective interest rate (%)	Book value
Long-term loans receivable	-	-	3.60~7.42	₩ 68,708

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

8. Inventories

Inventories as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013			2012		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
Merchandises	₩ 115,347,390	₩ (16,855,562)	₩ 98,491,828	₩ 100,105,902	₩ (5,299,434)	₩ 94,806,468
Finished goods	324,288,814	(36,496,387)	287,792,427	291,069,193	(26,804,463)	264,264,730
Work-in-process	239,774,209	(17,820,703)	221,953,506	205,814,923	(14,352,221)	191,462,702
Components	18,158,725	-	18,158,725	21,923,474	-	21,923,474
Raw materials	205,950,332	(12,900,152)	193,050,180	197,796,413	(8,324,264)	189,472,149
Supplies	28,140,674	-	28,140,674	31,625,172	-	31,625,172
Materials in-transit	40,471,840	-	40,471,840	44,410,655	-	44,410,655
Total	₩ 972,131,984	₩ (84,072,804)	₩ 888,059,180	₩ 892,745,732	₩ (54,780,382)	₩ 837,965,350

Loss on valuation amounting to ₩29,292,422 thousand was recognized for the year ended December 31, 2013 and the reversal of write-down amounting to ₩4,862,172 thousand was recognized for the year ended December 31, 2012. Scrapped inventories amounted to ₩50,766,269 thousand and ₩33,948,609 thousand for the years ended December 31, 2013 and 2012, respectively.

Inventories primarily consist of telecommunication, PC and AV components and other electronic components, and have been insured against fire and other casualty losses for up to ₩922,512,470 thousand as at December 31, 2013.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

9. Investment in associates

Investment in associates as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013					
	Number of shares	Equity interest	Acquisition cost	Proportionate net asset value	Book value	Domicile
Stemco Co., Ltd.	1,440,000	30.00%	₩ 7,200,000	₩ 16,431,433	₩ 16,431,433	Korea
Samsung Economic Research Institute	2,856,000	23.80%	14,280,000	20,689,989	20,689,989	Korea
Total			₩ 21,480,000	₩ 37,121,422	₩ 37,121,422	

	2012					
	Number of shares	Equity interest	Acquisition cost	Proportionate net asset value	Book value	Domicile
Stemco Co., Ltd.	1,440,000	30.00%	₩ 7,200,000	₩ 14,770,656	₩ 14,770,656	Korea
Samsung Economic Research Institute	2,856,000	23.80%	14,280,000	19,205,612	19,205,612	Korea
Total			₩ 21,480,000	₩ 33,976,268	₩ 33,976,268	

The following table summarizes the financial position of associates as at December 31, 2013 and 2012, and the results of their financial performance for the years then ended (Korean won in thousands):

	2013			
	Total assets	Total liabilities	Sales	Profit (loss) for the year
Stemco Co., Ltd.	₩ 116,247,310	₩ 61,475,864	₩ 162,331,269	₩ 5,535,927
Samsung Economic Research Institute	127,393,424	40,460,699	166,090,511	5,459,017
Total	₩ 243,640,734	₩ 101,936,563	₩ 328,421,780	₩ 10,994,944

	2012			
	Total assets	Total liabilities	Sales	Profit (loss) for the year
Stemco Co., Ltd.	₩ 128,174,690	₩ 78,939,171	₩ 168,692,951	₩ (3,120,339)
Samsung Economic Research Institute	109,040,318	28,344,374	154,186,261	(299,366)
Total	₩ 237,215,008	₩ 107,283,545	₩ 322,879,212	₩ (3,419,705)

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

9. Investment in associates (cont'd)

Details of changes in the carrying amount of equity method investments for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013							Dec. 31, 2013
	Jan. 1, 2013	Share of profit in investee	Share of loss in investee	Changes in equity adjustments in equity method	Disposal	Others		
Stemco Co., Ltd.	₩ 14,770,655	₩ 1,660,778	₩ -	₩ -	₩ -	₩ -	₩ 16,431,433	
Samsung Economic Research Institute	19,205,613	1,299,246	-	185,108	-	22	20,689,989	
Total	₩ 33,976,268	₩ 2,960,024	₩ -	₩ 185,108	₩ -	₩ 22	₩ 37,121,422	

	2012							Dec. 31, 2012
	Jan. 1, 2012	Share of profit in investee	Share of loss in investee	Changes in equity adjustments in equity method	Disposal	Others		
Stemco Co., Ltd.	₩ 15,706,757	₩ -	₩ (936,102)	₩ -	₩ -	₩ -	₩ 14,770,655	
Samsung Economic Research Institute	20,094,296	-	(71,249)	(817,434)	-	-	19,205,613	
e-Samsung International Co., Ltd.	5,641,519	585,714	-	424,568	(6,651,801)	-	-	
Total	₩ 41,442,572	₩ 585,714	₩ (1,007,351)	₩ (392,866)	₩ (6,651,801)	₩ -	₩ 33,976,268	

10. Available-for-sale financial assets

Available-for-sale financial assets as at December 31, 2013 and 2012 consist of the following (Korean won in thousands):

	2013					2012	
	Acquisition cost	Fair value	Book value	Unrealized Gain	Cumulative impairment loss		Book Value
					Before 2013	2013	
Marketable securities	₩ 123,796,277	₩ 353,836,467	₩ 353,836,467	₩ 230,040,190	₩ -	₩ -	₩ 508,851,922
Non-marketable securities	175,233,321	871,329,963	871,877,057	707,009,722	(9,024,063)	(1,341,922)	823,779,213
Total	₩ 299,029,598	₩ 1,225,166,430	₩ 1,225,713,524	₩ 937,049,912	₩ (9,024,063)	₩ (1,341,922)	₩ 1,332,631,135

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

10. Available-for-sale financial assets (cont'd)

Marketable securities as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013							2012		Domicile
	Number of shares	Equity interest	Acquisition cost	Fair value	Book value	Unrealized gain	Cumulative impairment loss		Book Value	
							Before 2013	2013		
Samsung Heavy Industries Co., Ltd.	5,508,563	2.38%	₩ 36,152,902	₩ 209,600,823	₩ 209,600,823	₩ 173,447,921	₩ -	₩ -	₩ 212,355,104	Korea
Samsung Fine Chemicals Co., Ltd.	66,911	0.26%	2,890,149	2,980,885	2,980,885	90,736	-	-	4,081,571	Korea
Samsung Card Co., Ltd.	-	-	-	-	-	-	-	-	161,206,594	Korea
Samsung Life Insurance Co., Ltd.	1,206,380	0.60%	84,446,600	125,463,520	125,463,520	41,016,920	-	-	113,761,634	Korea
iMarketkorea Inc.	613,252	1.71%	306,626	15,791,239	15,791,239	15,484,613	-	-	17,447,019	Korea
Total			<u>₩ 123,796,277</u>	<u>₩ 353,836,467</u>	<u>₩ 353,836,467</u>	<u>₩ 230,040,190</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 508,851,922</u>	

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

10. Available-for-sale financial assets (cont'd)

Non-marketable securities as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013						2012		Domicile
	Number of shares	Equity interest	Acquisition cost	Proportionate net asset value	Book value	Cumulative impairment loss		Book value	
						Before 2013	2013		
Samsung General Chemicals Co., Ltd. (*)	5,158,443	10.53%	₩ 50,132,139	₩ 217,340,679	₩ 217,340,679	₩ -	₩ -	₩ 200,725,334	Korea
Samsung SDS Co., Ltd. (*)	6,099,604	7.88%	83,160,054	422,745,254	422,745,254	-	-	395,900,897	Korea
Samsung Everland Inc. (*)	100,000	4.00%	10,000,000	208,962,300	208,962,300	-	-	208,381,500	Korea
Samsung Lions Co., Ltd.	25,000	12.50%	673,200	-	673,200	-	-	673,200	Korea
Samsung Venture Investment Co., Ltd. (*)	1,020,000	17.00%	5,100,000	6,322,980	6,322,980	-	-	6,300,540	Korea
Cosmotech Co., Ltd.	779,486	1.69%	1,459,230	-	-	(1,459,230)	-	-	Korea
KMAC fund	8,000	1.00%	40,000	265,227	40,000	-	-	40,000	Korea
Intellectual Discovery	36,060	0.40%	250,004	250,004	250,004	-	-	250,004	Korea
Korea Orbcom Ltd.	16,000	3.42%	600,000	-	-	(600,000)	-	-	Korea
IMA	347,696	8.69%	4,028,477	4,028,477	4,028,477	-	-	4,028,477	Hongkong
eSGC	113,029,316	8.70%	-	-	-	-	-	-	Hongkong
DTI Inc.	333,333	2.77%	564,799	651	-	(564,799)	-	-	US
Inkel Co., Ltd.	40	0.00%	200	428	200	-	-	200	Korea
Cosmolink Co., Ltd.	58,067	2.18%	6,451,253	1,102,518	1,102,518	(5,400,000)	51,265	-	Korea
Postech Social Corporation Fund	10	1.67%	100,000	-	100,000	-	-	-	Korea
Empower Co., Ltd.	22,223	3.91%	1,000,035	1	1	(1,000,034)	-	1	Korea
Solidus Biosciences Inc.	57,030	17.72%	1,393,188	1	1	-	(1,393,187)	1,091,118	US
FITO Co., Ltd.	12,382	14.77%	1,600,155	1,600,155	1,600,155	-	-	2,000,155	Korea
Image Next	100,000	11.82%	2,000,000	2,000,000	2,000,000	-	-	2,000,000	Korea
PowerbyProxi	5,481,855	12.47%	4,292,800	4,292,800	4,292,800	-	-	-	New Zealand
DS Asia Holdings	3,208,399	1.80%	2,387,787	2,418,488	2,418,488	-	-	2,387,787	Hongkong
Total			₩ 175,233,321	₩ 871,329,963	₩ 871,877,057	₩ (9,024,063)	₩ (1,341,922)	₩ 823,779,213	

(*) Valuations on the investments in Samsung General Chemicals Co., Ltd., Samsung SDS Co., Ltd., Samsung Venture Investment Co., Ltd. and Samsung Everland Inc. were performed by an independent professional appraiser, using fair values calculated using the discounted future cash flows method, guideline public company method, various financial ratios and other relevant information. The discount rate used for calculating fair value ranged from 8.01% to 9.63% and risk-free interest rate was 2.99%.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

10. Available-for-sale financial assets (cont'd)

When determining the fair value of respective securities, the Group considered various factors including macro economics, business environment and business model of the investees obtained from information and data available at the valuation date. The Group assumed that the business structure of the investees would not be changed during the period of estimation.

Other non-marketable securities were recorded at acquisition cost due to a lack of comparable market prices or inability to reliably measure fair value.

Details of changes in accumulated other comprehensive income arising from valuation of available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013				
	January 1	Increase (decrease)	Disposal	Current year tax effect	December 31
Marketable securities					
Samsung Heavy Industries Co., Ltd.	₩ 133,561,269	₩ (2,754,282)	₩ -	₩ 666,536	₩ 131,473,523
Samsung Fine Chemicals Co., Ltd.	903,098	(1,100,686)	-	266,366	68,778
Samsung Card Co., Ltd.	(17,835,031)	7,066,590	16,462,474	(5,694,033)	-
Samsung Life Insurance Co., Ltd.	22,220,796	11,701,886	-	(2,831,857)	31,090,825
iMarketkorea Inc.	12,992,418	(1,655,780)	-	400,699	11,737,337
Sub total	151,842,550	13,257,728	16,462,474	(7,192,289)	174,370,463
Non-marketable securities					
Samsung SDS Co., Ltd.	237,057,559	26,844,357	-	(6,496,335)	257,405,581
Samsung Everland Inc.	150,373,177	580,800	-	(140,554)	150,813,423
Samsung General Chemicals Co., Ltd. SVIC#4	114,149,642	16,615,345	-	(4,020,913)	126,744,074
NEW TECHNOLOGY BUSINESS INVESTMENT	910,009	22,440	-	(5,430)	927,019
Solidus Biosciences Inc.	(302,070)	302,070	-	-	-
Sub total	502,188,317	44,365,012	-	(10,663,232)	535,890,097
Total	₩ 654,030,867	₩ 57,622,740	₩ 16,462,474	₩ (17,855,521)	₩ 710,260,560

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

10. Available-for-sale financial assets (cont'd)

	2012				
	January 1	Increase (decrease)	Disposal	Current year tax effect	December 31
Marketable securities					
Samsung Heavy Industries Co., Ltd.	₩ 89,092,293	₩ 58,666,195	₩ -	₩ (14,197,219)	₩ 133,561,269
Samsung Fine Chemicals Co., Ltd.	903,098	-	-	-	903,098
Samsung Card Co., Ltd.	(9,800,317)	(10,599,886)	-	2,565,172	(17,835,031)
Samsung Life Insurance Co., Ltd.	9,967,353	16,165,492	-	(3,912,049)	22,220,796
iMarketkorea Inc.	7,298,066	7,512,338	-	(1,817,986)	12,992,418
LB Semicon Co., Ltd.	42,978	-	(56,699)	13,721	-
KT Skylife Co., Ltd.	42,168	-	(55,631)	13,463	-
Sub total	97,545,639	71,744,139	(112,330)	(17,334,898)	151,842,550
Non-marketable securities					
Samsung SDS Co., Ltd.	223,052,978	18,475,701	-	(4,471,120)	237,057,559
Samsung Everland Inc.	130,438,762	26,298,700	-	(6,364,285)	150,373,177
Samsung General Chemicals Co., Ltd. SVIC#4	107,772,269	8,413,421	-	(2,036,048)	114,149,642
NEW TECHNOLOGY BUSINESS INVESTMENT	737,595	227,459	-	(55,045)	910,009
Empower Co., Ltd.	(700,025)	700,025	-	-	-
Solidus Biosciences Inc.	-	(302,070)	-	-	(302,070)
Sub total	461,301,579	53,813,236	-	(12,926,498)	502,188,317
Total	₩ 558,847,218	₩ 125,557,375	₩ (112,330)	₩ (30,261,396)	₩ 654,030,867

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

11. Property, plant and equipment

Changes in the book value of property, plant and equipment for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

		2013							
		Jan. 1	Additions	Disposals	Transfers	Depreciation	Scope change in subsidiaries	Others(*)	Dec. 31
Acquisition cost:									
Land	₩	205,183,694	₩ -	₩ (19,433)	₩ -	₩ -	₩ 5,368,155	₩ (3,583,587)	₩ 206,948,829
Buildings		1,151,929,077	17,807,103	(538,880)	77,674,920	-	-	581,489	1,247,453,709
Structures		95,235,651	1,665,331	(169,946)	369,200	-	-	(4,062,884)	93,037,352
Machinery		3,619,246,590	216,206,476	(147,054,846)	533,806,174	-	-	1,575,538	4,223,779,932
Vehicles		7,812,592	994,042	(915,293)	206,593	-	-	(53,527)	8,044,407
Equipment		267,944,682	55,231,765	(13,898,856)	7,956,088	-	-	(3,572,072)	313,661,607
Construction-in-progress		93,614,012	623,899,891	(65,722)	(508,108,857)	-	-	(23,363,563)	185,975,761
Machinery-in-transit		55,748,522	109,391,828	-	(111,904,118)	-	-	1,439	53,237,671
Total	₩	5,496,714,820	₩ 1,025,196,436	₩ (162,662,976)	₩ -	₩ -	₩ 5,368,155	₩ (32,477,167)	₩ 6,332,139,268
Accumulated depreciation and impairment :									
Land	₩	-	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
Buildings		(340,695,950)	-	328,984	-	(35,067,060)	-	(2,926,968)	(378,360,994)
Structures		(34,161,364)	-	66,210	-	(4,695,887)	-	2,863,165	(35,927,876)
Machinery		(2,349,303,278)	-	123,992,404	-	(519,705,424)	-	(9,299,908)	(2,754,316,206)
Vehicles		(5,510,351)	-	850,055	-	(1,078,854)	-	31,345	(5,707,805)
Equipment		(180,860,920)	-	11,264,001	-	(39,542,286)	-	1,147,821	(207,991,384)
Construction-in-progress		-	-	-	-	-	-	-	-
Machinery-in-transit		-	-	-	-	-	-	-	-
Total	₩	(2,910,531,863)	₩ -	₩ 136,501,654	₩ -	₩ (600,089,511)	₩ -	₩ (8,184,545)	₩ (3,382,304,265)
Net book value:									
Land	₩	205,183,694	₩ -	₩ (19,433)	₩ -	₩ -	₩ 5,368,155	₩ (3,583,587)	₩ 206,948,829
Buildings		811,233,127	17,807,103	(209,896)	77,674,920	(35,067,060)	-	(2,345,479)	869,092,715
Structures		61,074,287	1,665,331	(103,736)	369,200	(4,695,887)	-	(1,199,719)	57,109,476
Machinery		1,269,943,312	216,206,476	(23,062,442)	533,806,174	(519,705,424)	-	(7,724,370)	1,469,463,726
Vehicles		2,302,241	994,042	(65,238)	206,593	(1,078,854)	-	(22,182)	2,336,602
Equipment		87,083,762	55,231,765	(2,634,855)	7,956,088	(39,542,286)	-	(2,424,251)	105,670,223
Construction-in-progress		93,614,012	623,899,891	(65,722)	(508,108,857)	-	-	(23,363,563)	185,975,761
Machinery-in-transit		55,748,522	109,391,828	-	(111,904,118)	-	-	1,439	53,237,671
Total	₩	2,586,182,957	₩ 1,025,196,436	₩ (26,161,322)	₩ -	₩ (600,089,511)	₩ 5,368,155	₩ (40,661,712)	₩ 2,949,835,003

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

11. Property, plant and equipment (cont'd)

2012

	Jan. 1	Additions	Disposals	Transfers	Depreciation	Scope change in subsidiaries	Others(*)	Dec. 31
Acquisition cost:								
Land	₩ 192,323,770	₩ 1,930,443	₩ (1,003,903)	₩ -	₩ -	₩ 15,549,838	₩ (3,616,454)	₩ 205,183,694
Buildings	1,092,638,387	5,232,579	-	43,691,019	-	25,480,725	(15,113,633)	1,151,929,077
Structures	93,346,144	1,855,529	(1,200,812)	1,253,664	-	1,073,010	(1,091,884)	95,235,651
Machinery	3,169,151,170	217,016,440	(172,369,921)	433,450,316	-	56,374,748	(84,376,163)	3,619,246,590
Vehicles	7,582,265	1,199,045	(897,814)	40,224	-	48,558	(159,686)	7,812,592
Equipment	240,430,463	48,077,369	(16,241,924)	(848,891)	-	6,046,956	(9,519,291)	267,944,682
Construction-in-progress	59,082,338	312,560,853	-	(222,868,034)	-	1,946,658	(57,107,803)	93,614,012
Machinery-in-transit	29,224,232	294,182,117	-	(254,718,298)	-	-	(12,939,529)	55,748,522
Total	₩ 4,883,778,769	₩ 882,054,375	₩ (191,714,374)	₩ -	₩ -	₩ 106,520,493	₩ (183,924,443)	₩ 5,496,714,820
Accumulated depreciation and impairment :								
Land	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
Buildings	(311,000,423)	-	-	-	(33,003,118)	-	3,307,591	(340,695,950)
Structures	(30,403,636)	-	886,748	-	(4,557,437)	(107,635)	20,596	(34,161,364)
Machinery	(2,096,755,546)	-	126,924,387	-	(424,109,539)	(1,198,492)	45,835,912	(2,349,303,278)
Vehicles	(5,374,433)	-	764,630	-	(969,845)	(37,106)	106,403	(5,510,351)
Equipment	(161,807,133)	-	13,909,702	-	(37,591,496)	(4,595,507)	9,223,514	(180,860,920)
Construction-in-progress	-	-	-	-	-	-	-	-
Machinery-in-transit	-	-	-	-	-	-	-	-
Total	₩ (2,605,341,171)	₩ -	₩ 142,485,467	₩ -	₩ (500,231,435)	₩ (5,938,740)	₩ 58,494,016	₩ (2,910,531,863)
Net book value:								
Land	₩ 192,323,770	₩ 1,930,443	₩ (1,003,903)	₩ -	₩ -	₩ 15,549,838	₩ (3,616,454)	₩ 205,183,694
Buildings	781,637,964	5,232,579	-	43,691,019	(33,003,118)	25,480,725	(11,806,042)	811,233,127
Structures	62,942,508	1,855,529	(314,064)	1,253,664	(4,557,437)	965,375	(1,071,288)	61,074,287
Machinery	1,072,395,624	217,016,440	(45,445,534)	433,450,316	(424,109,539)	55,176,256	(38,540,251)	1,269,943,312
Vehicles	2,207,832	1,199,045	(133,184)	40,224	(969,845)	11,452	(53,283)	2,302,241
Equipment	78,623,330	48,077,369	(2,332,222)	(848,891)	(37,591,496)	1,451,449	(295,777)	87,083,762
Construction-in-progress	59,082,338	312,560,853	-	(222,868,034)	-	1,946,658	(57,107,803)	93,614,012
Machinery-in-transit	29,224,232	294,182,117	-	(254,718,298)	-	-	(12,939,529)	55,748,522
Total	₩ 2,278,437,598	₩ 882,054,375	₩ (49,228,907)	₩ -	₩ (500,231,435)	₩ 100,581,753	₩ (125,430,427)	₩ 2,586,182,957

(*) Others represent impairment loss, amortization of government subsidy, foreign exchange rate adjustments, transfers to inventories, and others.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

11. Property, plant and equipment (cont'd)

Acquisition cost is deemed to be the acquisition date fair value when the assets are purchased at no cost or at a price lower than the fair value through government subsidy. Government subsidy which is used for the acquisition of assets is accounted for as a deduction from the acquisition cost of the acquired assets, and is offset against the depreciation of the acquired assets during such assets' useful lives. Government subsidy amounting to ₩351,348 thousand was used for the acquisition of assets and ₩979,397 thousand was offset against the depreciation expenses in 2013.

As at December 31, 2013 the Group recorded government subsidy with an obligation for repayment amounting to ₩1,428,679 thousand as other accounts payable. Government subsidy with no repayment obligation as at December 31, 2013 amounted to ₩134,574 thousand, of which ₩111,023 thousand was offset against the related expenses and the remaining unutilized portion amounting to ₩23,551 thousand was recorded as unearned income.

Borrowing costs incurred amounting to ₩4,862,885 thousand and ₩5,371,519 thousand for the years ended December 31, 2013 and 2012, respectively, which were directly attributable to the acquisition and construction of qualifying property, plant and equipment, are capitalized as part of the cost of those assets.

The details of changes in accumulated impairment losses for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013					December 31
	January 1	Additions	Disposals	Others		
Buildings	₩ 5,235,037	₩ -	₩ -	₩ 147,855	₩	5,382,892
Machinery	2,324,068	6,706,541	(2,151,369)	(3,238,354)		3,640,886
Equipment	179,294	-	-	6,590		185,884
Total	₩ 7,738,399	₩ 6,706,541	₩ (2,151,369)	₩ (3,083,909)	₩	9,209,662

	2012					December 31
	January 1	Additions	Disposals	Others		
Buildings	₩ 5,522,764	₩ -	₩ -	₩ (287,727)	₩	5,235,037
Machinery	1,778,814	470,715	(652,835)	727,374		2,324,068
Equipment	249,362	188,036	(221,662)	(36,442)		179,294
Total	₩ 7,550,940	₩ 658,751	₩ (874,497)	₩ 403,205	₩	7,738,399

The Company revalued certain property, plant and equipment in accordance with the Korean Asset Revaluation Act on January 1, 1981 and July 1, 1998. The revalued amounts are recorded as deemed cost at the revaluation date in accordance with *KIFRS 1101*. The difference between the revaluation amount and book value prior to revaluation is recorded as revaluation surplus in retained earnings, and may not be utilized for cash dividends.

Property, plant and equipment are insured against fire and other casualty losses for up to ₩6,056,076,156 thousand and ₩5,334,758,019 thousand as at December 31, 2013 and 2012, respectively.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

12. Intangible assets

Changes in the book value of intangible assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

		2013					
Acquisition cost:	January 1	Additions	Disposals	Amortization	Others(*)	December 31	
Patent/industrial proprietary rights(**)	₩ 135,461,245	₩ 2,329,241	₩ -	₩ -	₩ (25,623,309)	₩ 112,167,177	
Land usage rights	6,828,759	845,787	-	-	(115,729)	7,558,817	
Software	56,423,448	12,942,396	(108,955)	-	572,207	69,829,096	
Goodwill	64,162,099	-	-	-	-	64,162,099	
Others	34,161,102	6,640,459	(757,927)	-	(1,337,543)	38,706,091	
Total	₩ 297,036,653	₩ 22,757,883	₩ (866,882)	₩ -	₩ (26,504,374)	₩ 292,423,280	
Accumulated amortization and impairment :							
Patent/industrial proprietary rights(**)	₩ (10,076,836)	₩ -	₩ -	₩ (9,869,300)	₩ 2,250,426	₩ (17,695,710)	
Land usage rights	(572,200)	-	-	(198,852)	(2,891)	(773,943)	
Software	(40,492,800)	-	106,374	(8,841,883)	9,259	(49,219,050)	
Goodwill	-	-	-	-	-	-	
Others	(471,082)	-	-	(256,290)	727,372	-	
Total	₩ (51,612,918)	₩ -	₩ 106,374	₩ (19,166,325)	₩ 2,984,166	₩ (67,688,703)	
Net book value:							
Patent/industrial proprietary rights(**)	₩ 125,384,409	₩ 2,329,241	₩ -	₩ (9,869,300)	₩ (23,372,883)	₩ 94,471,467	
Land usage rights	6,256,559	845,787	-	(198,852)	(118,620)	6,784,874	
Software	15,930,648	12,942,396	(2,581)	(8,841,883)	581,466	20,610,046	
Goodwill	64,162,099	-	-	-	-	64,162,099	
Others	33,690,020	6,640,459	(757,927)	(256,290)	(610,171)	38,706,091	
Total	₩ 245,423,735	₩ 22,757,883	₩ (760,508)	₩ (19,166,325)	₩ (23,520,208)	₩ 224,734,577	

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

12. Intangible assets (cont'd)

		2012								
		January 1	Additions	Disposals	Amortization	Scope change in subsidiaries	Others(*)	December 31		
Acquisition cost:										
Patent/industrial proprietary rights(**)	₩	2,341,396	₩ -	₩ -	₩ -	₩ 147,739,180	₩ (14,619,331)	₩	135,461,245	
Land usage rights		7,251,087	-	-	-	-	(422,328)		6,828,759	
Software		45,747,976	10,016,476	(779,339)	-	2,207,671	(769,336)		56,423,448	
Goodwill		-	-	-	-	64,162,099	-		64,162,099	
Others		35,284,127	788,932	(1,830,000)	-	-	(81,957)		34,161,102	
Total	₩	90,624,586	₩ 10,805,408	₩ (2,609,339)	₩ -	₩ 214,108,950	₩ (15,892,952)	₩	297,036,653	
Accumulated amortization and impairment :										
Patent/industrial proprietary rights(**)	₩	(2,197,871)	₩ -	₩ -	₩ (9,314,066)	₩ -	₩ 1,435,101	₩	(10,076,836)	
Land usage rights		(415,023)	-	-	(188,429)	-	31,252		(572,200)	
Software		(31,670,800)	-	779,329	(8,731,057)	(933,544)	63,272		(40,492,800)	
Goodwill		-	-	-	-	-	-		-	
Others		(99,100)	-	-	(392,232)	-	20,250		(471,082)	
Total	₩	(34,382,794)	₩ -	₩ 779,329	₩ (18,625,784)	₩ (933,544)	₩ 1,549,875	₩	(51,612,918)	
Net book value:										
Patent/industrial proprietary rights(**)	₩	143,525	₩ -	₩ -	₩ (9,314,066)	₩ 147,739,180	₩ (13,184,230)	₩	125,384,409	
Land usage rights		6,836,064	-	-	(188,429)	-	(391,076)		6,256,559	
Software		14,077,176	10,016,476	(10)	(8,731,057)	1,274,127	(706,064)		15,930,648	
Goodwill		-	-	-	-	64,162,099	-		64,162,099	
Others		35,185,027	788,932	(1,830,000)	(392,232)	-	(61,707)		33,690,020	
Total	₩	56,241,792	₩ 10,805,408	₩ (1,830,010)	₩ (18,625,784)	₩ 213,175,406	₩ (14,343,077)	₩	245,423,735	

(*) Others represent the amortization of government subsidy and adjustments resulting from foreign exchange differences.

(**) Industrial proprietary rights obtained through business combination include license contracts, customer lists and know-how, which were measured at fair value at acquisition date.

12. Intangible assets (cont'd)

Research and development costs incurred and charged to operations for the years ended December 31, 2013 and 2012 amounted to ₩514,257,622 thousand and ₩417,041,029 thousand, respectively.

The Group performed impairment tests for assets with indefinite useful lives such as goodwill and memberships, resulting in no impairment loss being recognized.

The recoverable amount of membership is the higher of the fair value less costs to sell and its value in use. The Group uses fair value less costs to sell, if such information is available. If not, the Group calculates the recoverable amount based on rationally derived fair value and value in use.

Goodwill, acquired through business combinations, belongs to the MD cash generating unit in the OMS operating segment.

The recoverable amount of the MD segment has been determined based on values from cash flow projections from financial budgets approved by senior management covering the next five-year period. Cash flows have been projected taking into consideration expected sales growth for the next five-year period based on product demand, regional inflation rates, capacity and operating rate of CGUs. Cash flows beyond the five-year period are extrapolated using a 1.8% growth rate, which is the long-term average growth rate of GDPs for industrialized countries published by the IMF.

The pre-tax discount rate applied to the cash flow projection is 9.3%. The discount rate is calculated based on weighted average cost of capital (WACC) reflecting risk factors related to CGUs.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

13. Accounts and notes payable

Accounts and notes payable as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
	Current	Non-current	Current	Non-current
Accounts and notes payable - trade	₩ 393,257,843	₩ -	₩ 475,995,676	₩ -
Other accounts Payable	221,302,755	1,984,001	233,893,246	11,044,476
Accrued expenses	199,619,758	5,794,881	204,193,227	10,919,187
Dividends payable	3,814,093	-	3,714,254	-
Total	₩ 817,994,449	₩ 7,778,882	₩ 917,796,403	₩ 21,963,663

Accounts and notes payable measured at amortized cost using the effective interest rate method as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
	Effective interest rate(%)	Book value	Effective interest rate(%)	Book value
Long-term other accounts payable	3.81 ~ 4.56	₩ 1,984,001	3.81~ 6.23	₩ 11,044,476

14. Borrowings and leases

Short-term borrowings as at December 31, 2013 and 2012 consist of the following (Korean won in thousands):

Financial institution	Description	Annual interest rate (%) as of Dec. 31, 2013	2013	2012
Woori Bank and 6 other banks	Discount of commercial paper	LIBO + 0.65	213,115,395	146,296,165
Citibank and 13 other banks	Subsidiaries' borrowings	1.23 ~ 5.60	593,101,230	655,027,867
Total			₩ 806,216,625	₩ 801,324,032

The Group entered into a factoring agreement with recourse for its accounts receivable with Woori Bank, Shinhan Bank, Hana Bank, Kookmin Bank, Korea Exchange Bank, Daegu Bank and Nonghyup Bank. Factored receivables not overdue as at December 31, 2013 are accounted for as short-term borrowings. (Note 6)

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

14. Borrowings and leases (cont'd)

Long-term borrowings denominated in Korean won and in foreign currency as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

Financial institution	Annual interest rate (%) as of Dec. 31, 2013	2013	2012
Kookmin Bank	-	₩ -	₩ 100,000,000
Korea Development Bank	2.97	300,000,000	300,000,000
Mizuho Corporate Bank	1.79	15,829,500	32,133,000
Bank of America	1.79	15,829,500	32,133,000
Mizuho Bank and 5 other banks	1.69~3.95	468,012,151	255,478,534
Sub Total		799,671,151	719,744,534
Less current portion of borrowings		(90,592,005)	(140,265,466)
Total		₩ 709,079,146	₩ 579,479,068

Assets under capital leases as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013	2012
At cost	₩ 16,544,614	₩ 37,314,710
Accumulated depreciation	(7,786,882)	(14,713,255)
Net book value	₩ 8,757,732	₩ 22,601,455

Details of capital lease obligations as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	₩ 4,036,555	₩ 3,924,324	₩ 10,368,668	₩ 9,566,422
After 1 year but less than 5 years	67,854	67,854	9,284,248	9,159,725
Total	₩ 4,104,409	₩ 3,992,178	₩ 19,652,916	₩ 18,726,147

102 commercial operating lease arrangements were entered into, which include office leases with Mitsubishi Real Estate Service. Future minimum lease payables under such operating leases as at December 31, 2013 are as follows (Korean won in thousands):

	Minimum lease payables (*)
Within 1 year	₩ 12,525,194
After 1 year but less than 5 years	20,740,407
After 5 years	6,582,245
Total	₩ 39,847,846

(*) Minimum lease payables are denominated in various currencies and are translated using the average exchange rate during the year ended December 31, 2013.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

15. Defined benefit liability

The Group has a defined benefit pension plan for its employees, for which the present value of defined benefits liabilities is calculated using the projected unit credit method by an independent actuary firm.

Changes in defined benefit liability for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013	2012
Changes in defined benefit liability		
Beginning balance	₩ 183,614,304	₩ 76,429,994
Contributions by employer	(118,161)	(103,508)
Retirement benefits paid	(11,541,321)	(8,881,146)
Total benefit expenses	62,661,925	51,705,387
Succession of defined benefit liability	1,634,158	2,145,860
Re-measurement gain (loss)	(3,111,795)	61,841,886
Scope change of subsidiaries	-	557,789
Foreign exchange differences	13,836	(81,958)
Ending balance	233,152,946	183,614,304
Defined benefit liability		
in the statement of financial position:		
Present value of defined benefit obligation	356,142,761	310,490,032
Fair value of plan assets	(122,989,815)	(126,875,728)
Total	₩ 233,152,946	₩ 183,614,304

Re-measurement losses on defined benefit plans amounting to ₩3,111,795 thousand (net of tax ₩964,222 thousand) and ₩61,841,886 thousand (net of tax ₩14,998,601 thousand) for the years ended December 31, 2013 and 2012, respectively, were recorded as other comprehensive income.

Expenses recorded in relation to the defined benefit pension plan for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013	2012
Current service cost	₩ 54,948,197	₩ 45,637,995
Interest cost on benefit obligation	14,151,316	12,896,548
Expected return on plan assets	(6,437,588)	(6,829,156)
Total	₩ 62,661,925	₩ 51,705,387

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

15. Defined benefit liability (cont'd)

Changes in the present value of the defined benefit obligation for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013	2012
Beginning balance	₩ 310,490,032	₩ 205,932,309
Benefits paid	(19,004,690)	(15,818,905)
Current service cost	54,948,197	45,637,995
Interest cost	14,151,316	12,896,548
Succession of defined benefit obligation	1,634,158	2,419,998
Re-measurement gain (loss) based on changes of demographic assumptions	5,488,678	34,624,944
Re-measurement gain (loss) based on changes of financial assumptions	(11,505,166)	24,370,093
Scope change of subsidiaries	-	557,789
Foreign exchange differences	(59,764)	(130,739)
Ending balance	₩ 356,142,761	₩ 310,490,032

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

	2013	2012
Beginning balance	₩ 126,875,728	₩ 129,502,315
Contributions by employer	118,161	103,508
Benefits paid	(7,463,369)	(6,937,759)
Succession of plan assets	-	274,138
Expected return on plan assets	6,437,588	6,829,156
Re-measurement loss	(2,904,693)	(2,846,849)
Foreign exchange differences	(73,600)	(48,781)
Ending balance	₩ 122,989,815	₩ 126,875,728

The Group has funded 34.5% of its defined benefit obligation with Samsung Life Insurance Co., Ltd. The Group's employees are individually nominated as the vested beneficiaries of the defined benefit plan assets. Contributions related to the defined benefit obligation are expected to be ₩20,557 million for the next fiscal year.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

15. Defined benefit liability (cont'd)

The major categories of the fair value of total plan assets as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
Cash and cash equivalents	₩	122,160,250	₩	126,034,930
Others		829,565		840,798
Total	₩	122,989,815	₩	126,875,728

The principal assumptions used in actuarial calculation as at December 31, 2013 and 2012 are as follows:

	2013		2012	
Discount rate:		1.50 ~ 6.11%		1.00 ~ 6.27%
Future salary increases:		4.96 ~ 8.00%		5.00 ~ 8.00%

The following table demonstrates a sensitivity analysis on the effect of changes in the principal assumptions used in actuarial calculation on the present value of defined benefit obligation as at December 31, 2013 (Korean won in thousands):

Effect of changes in the discount rate

	- 1% Bp		+ 1% Bp	
Defined benefit obligation at December 31	₩	36,471,531	₩	(31,187,799)

Effect of changes in future salaries

	- 1% Bp		+ 1% Bp	
Defined benefit obligation at December 31	₩	(31,504,106)	₩	36,151,359

16. Commitments and contingencies

16.1 Significant lines of credit

Significant lines of credit with financial institutions as at December 31, 2013 are as follows (Korean won in thousands and US dollar in unit):

	Credit line (US\$)	Credit line (₩)	Description
Woori Bank and three other banks	US\$ -	₩ 89,500,000	Overdraft
Woori Bank and two other banks	US\$ 8,500,000	-	Import Letter of Credit
	(Equivalent to ₩8,970,050)		
Korean Exchange Bank	US\$ -	₩ 1,000,000	Local Letter of Credit
Woori Bank and six other banks	US\$ 629,000,000	₩ 150,000,000	Receivable factoring
	(Equivalent to ₩663,783,700)		

16. Commitments and contingencies (cont'd)

The Group provided security deposits for its bank overdraft facilities (Note 5).

16.2 Litigation regarding Samsung Motors Inc.

With regards to a court ordered receivership of Samsung Motors Inc. (SMI) in September 1999, where Keun Hee Lee (chairman of the Samsung Group), the Company and 28 other Samsung Group entities (collectively the "Samsung entities") are held jointly and severally liable to indemnify SMI's debt obligations, the institutional creditors of SMI brought litigation against the Samsung affiliates in December 2005, seeking settlement on outstanding debt amounting to ₩2,450 billion and related interest thereon.

Subsequently, the ordinary shares of Samsung Life Insurance previously held by the institutional creditors were disposed at initial public offering. The excess proceeds over par value of ₩70,000 per share amounting to ₩877.6 billion were deposited in escrow.

As a result, a substantial portion of the litigation against the Samsung entities was withdrawn by the institutional creditors. In January 2011, the Seoul High Court adjudicated the Samsung entities to pay ₩620.4 billion to the institutional creditors, which represents payment on the outstanding debt and interests, from the escrow account. Both Samsung entities and the institutional creditors appealed the Seoul High Court's decision to the Supreme Court of Korea. The outcome of such appeal cannot presently be determined at the end of the reporting date.

16.3 Collateralized assets

Certain fixed assets (land and buildings) of the Group amounting to ₩13,094,278 thousand are pledged as collateral in connection with the borrowings as at December 31, 2013.

16.4 Ruling by Supreme Court of Korea regarding ordinary wages

In accordance with a ruling by the Supreme Court of Korea regarding ordinary wages for employees, it shall include regular bonus payments and other employee benefits that are to be paid on a regular basis, universally applicable, and at fixed terms. However, in the event a company in the past did not include as part of ordinary wages as explained above, and is obligated to make retroactive payments up to three years to current and former employees but that such liability will lead to excessive financial difficulty, the Company may be exempted from its retroactive obligation. The Company has determined that there is a low likelihood to make full retroactive payment on its obligation and accordingly, no provision was recognized for the year ended December 31, 2013. Changes in the estimated timing and number of employees seeking reimbursement shall lead to a re-measurement of the provision.

17. Issued capital

The Company is authorized to issue 200 million ordinary shares with a par value per share of ₩5,000. As at December 31, 2013 the Company holds 77,600,680 ordinary shares (including 2,906,984 share) amounting to ₩388,003,400 thousand, which were issued through a series of preferred stock issuances since the Company's incorporation in 1973.

Under the Articles of Incorporation, the Company is authorized to issue 20 million shares of non-voting preferred shares. The non-voting preferred shares issued on or before February 27, 1997, are non-cumulative and entitled to an additional cash dividend of 1% of par value of ordinary shares. As at December 31, 2013, 2,906,984 of non-cumulative and non-voting preferred shares have been issued and outstanding.

17. Issued capital (cont'd)

In addition, the Company may issue cumulative, participating and non-voting preferred shares with a dividend rate of more than 1% of par value of ordinary shares with the approval of the Board of Directors or committee members entrusted by the Board of Directors. If the dividend rate of the ordinary shares exceeds that for preferred shares, such preferred shares are entitled to participate in cash dividend at the same dividend rate of ordinary shares. No such preferred stock has been issued as at December 31, 2013.

In addition, the Company is authorized to issue to investors, other than current stockholders, convertible bonds and bonds with warrants for a nominal value of up to ₩1,500,000 million and ₩700,000 million, respectively. Convertible bonds amounting to ₩1,200,000 million shall be convertible to ordinary shares and the remaining ₩300,000 million shall be convertible to preferred shares. Bonds with warrants amounting to ₩450,000 million shall entitle the bondholders to purchase ordinary shares and the remaining ₩250,000 million shall entitle the bondholders to purchase preferred shares. No such convertible bonds or bonds with warrants have been issued as at December 31, 2013.

The Company has a stock option plan under which options to purchase shares of ordinary shares may be granted to key employees with the approval of the stockholders within the limit specified by the Korean Commercial Code. These stock options vest after a two-year vesting period and are exercisable within eight years from the day when the stockholders approved the grants. As at December 31, 2013, stock options granted to the employees amounted to 8,500 options (Note 18) exercisable into ordinary stock.

Company's share premium of December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012
Paid-in capital in excess of par value	₩ 931,477,700	₩	931,477,700
Consideration for stock warrants	12,160,470		12,160,470
Gain on disposal of treasury stock	16,985,822		16,666,702
Exercise of stock option	1,201,580		1,201,580
Others	83,592,127		83,697,419
Total	₩ 1,045,417,699	₩	1,045,203,871

Other components of equity as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012
Treasury stock	₩ (1,793,159)	₩	(2,234,817)
Stock option (Note 18)	159,245		394,929
Total	₩ (1,633,914)	₩	(1,839,888)

As at December 31, 2013, the Company's treasury stock comprising of 8,500 ordinary shares and 53,430 preferred shares were repurchased by the Company to stabilize its stock price or held by the employee stock option plan. In 2013, the Company disposed of its treasury stock amounting to ₩441,658 thousand, and corresponding gain on disposal of treasury stock amounting to ₩319,120 thousand was recorded as share premium within equity.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

17. Issued capital (cont'd)

Accumulated other comprehensive income as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
Equity adjustment in equity method	₩	3,589,239	₩	3,448,928
Gain on valuation of available-for-sale financial assets		710,260,560		654,030,867
Loss from translation of foreign operations		(90,950,827)		(59,109,537)
Total	₩	622,898,972	₩	598,370,258

Other capital reserves of the Company as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
Legal reserve (*)	₩	71,080,491	₩	63,280,491
Business rationalization reserve		31,537,766		31,537,766
Capital expenditure reserve		7,895,000		7,895,000
Others		1,511,882,000		1,146,682,000
Total	₩	1,622,395,257	₩	1,249,395,257

(*) In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of paid-in capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

Details of dividends declared for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
Attributable to ordinary shares (2013: ₩750 per share, 2012: ₩1,000 per share)	₩	56,013,897	₩	74,673,996
Attributable to preferred shares (2013: ₩800 per share, 2012: ₩1,050 per share)		2,282,843		2,996,232
	₩	58,296,740	₩	77,670,228

18. Share-based payment transactions

Pursuant to the approval of the stockholders and the Board of Directors, the Company granted stock options to its executives and employees, and details are as follows:

- Shares to be issued upon the exercise of stock option: Ordinary shares
- Method of settlement: Equity-settled options (8,500 shares to be issued from treasury stock owned by the company)
- Exercisable condition: Two or three years from the grant date
- Number of stock options granted and exercisable period

Grant date	Number of stock options granted	Exercise price	Exercisable period
April 22, 2004 (6th)	8,500	47,300	Within eight years starting two years from the grant date

Changes in the outstanding number of stock options as at December 31, 2013 and 2012 are as follows (in thousand of shares)

	2013	2012
Beginning as at January 1	20	79
Exercised or forfeited during the year	(11)	(59)
Ending as at December 31	9	20

Changes in the carrying amount of share-based payments recorded in other components of equity during the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013	2012
Beginning as at January 1	₩ 394,929	₩ 1,694,191
Exercised or forfeited during the year	(235,684)	(1,299,262)
Ending as at December 31	₩ 159,245	₩ 394,929

The fair value of share options is estimated at the date of grant by using the Black-Scholes option pricing model. The assumptions used under the Black-Scholes option pricing model for all grants are as follows:

	Apr. 22, 2004
Risk-free interest rate (Three years treasury bond rate)	4.63%
Expected life of option	2 years
Expected volatility	53.00%
Expected dividend yield ratio	0.91%
Expected forfeiture	0%

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

19. Operating Profit

Details of cost of sales and operating expenses for the years ended December 31, 2013 and 2012 by nature of expense are as follows (Korean won in thousands):

	2013		2012
Changes in inventories, etc	₩ (57,703,861)	₩	(49,429,399)
Use of raw materials and supplies	3,987,456,734		3,958,272,596
Employee benefit expense	1,444,271,840		1,015,638,043
Depreciation and amortization of intangible assets	619,255,836		518,857,219
Outsourcing expenses	313,488,280		291,667,152
Commissions	79,089,583		71,702,713
Other expenses	1,406,755,756		1,525,644,852
Total	₩ 7,792,614,168	₩	7,332,353,176

The details of employee benefit expense for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012
Salaries expenses	₩ 1,065,652,265	₩	737,883,406
Pension benefit	64,732,391		51,574,802
Other employee benefits	313,887,184		226,179,835
Total	₩ 1,444,271,840	₩	1,015,638,043

Depreciation and amortization of intangible assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012
Depreciation	₩ 600,089,511	₩	500,231,435
Amortization of intangible assets	19,166,325		18,625,784
Total	₩ 619,255,836	₩	518,857,219

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

19. Operating Profit (cont'd)

Details of selling and administrative expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013	2012
Salaries expenses	₩ 161,294,454	₩ 158,558,908
Payroll expenses	45,524,716	44,174,183
Bonuses and other benefits	39,177,110	40,306,241
Pension benefit	21,194,775	17,249,130
Employee welfare benefits	95,315,746	82,368,809
Commissions	37,564,894	37,922,894
Supplies expenses	31,565,544	19,546,919
Repairs expenses	9,343,397	9,234,109
Depreciation	30,586,595	30,857,261
Sampling	15,665,884	8,642,318
Freight expenses	55,954,352	54,525,022
Travel expenses	26,431,111	22,267,109
Development expenses	335,896,762	247,535,440
IT expenses	39,245,838	43,611,104
Other expenses	138,590,613	122,130,084
Total	₩ 1,083,351,791	₩ 938,929,531

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

20. Non-operating profit and expenses

Details of non-operating profit and expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012
Non-operating profit:			
Gain on investment	₩ 12,392,480	₩	13,615,478
Finance income	12,898,545		17,314,406
Other income	266,895,040		270,990,342
	<u>292,186,065</u>		<u>301,920,226</u>
Non-operating expenses:			
Loss on investment	(28,455,546)		(6,064,971)
Finance costs	(42,169,601)		(49,275,760)
Donation	(10,556,926)		(9,926,706)
Other expenses	(238,966,007)		(233,700,749)
	<u>(320,148,080)</u>		<u>(298,968,186)</u>
Non operating profit, net	₩ (27,962,015)	₩	2,952,040

Gain (loss) on investment for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012
Gain on investment:			
Dividend income	₩ 9,381,191	₩	9,953,764
Equity in earnings of equity method investment	2,960,024		585,714
Gain on disposal of available-for-sale financial investments	-		1,724,939
Reversal of impairment loss on available-for-sale financial investments	51,265		-
Gain on disposal of investment in associates	-		1,351,061
	<u>12,392,480</u>		<u>13,615,478</u>
Loss on investment:			
Equity in loss of equity method investment	-		(1,007,351)
Loss on disposal of available-for-sale financial investments	(27,062,359)		(4,048,005)
Impairment loss on available-for-sale financial investments	(1,393,187)		(1,009,615)
	<u>(28,455,546)</u>		<u>(6,064,971)</u>
Gain on investment, net	₩ (16,063,066)	₩	7,550,507

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

20. Non-operating profit and expenses (cont'd)

Details of other income for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013	2012
Commission income	₩ 5,390,482	₩ 7,843,209
Gain on foreign currency transactions	184,567,977	126,465,660
Gain on foreign currency translation	23,125,168	62,371,630
Reversal of allowance for other doubtful accounts	3,253,091	2,943,607
Gain on disposal of property, plant and equipment	4,711,747	8,039,679
Reversal of impairment loss on property, plant and equipment	996,186	-
Others	44,850,389	63,326,557
Total	₩ 266,895,040	₩ 270,990,342

Details of other expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013	2012
Loss on foreign currency transactions	₩ 167,876,400	₩ 133,340,519
Loss on foreign currency translation	23,765,049	58,410,674
Loss on disposal of trade notes and accounts receivable	2,659,264	3,886,748
Loss on disposal of property, plant and equipment	10,380,271	7,008,887
Loss on disposal of intangible asset	13,200	-
Impairment loss on property, plant and equipment	6,706,541	658,751
Others	27,565,282	30,395,170
Total	₩ 238,966,007	₩ 233,700,749

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

21. Income tax

The major components of income tax expense for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013	2012
Current income tax	₩ 118,254,046	₩ 168,157,855
Deferred income tax from temporary differences and tax credits	(28,016,311)	(8,508,292)
Deferred income tax recognized directly to equity	72,585	150,603
Income tax attributable to continuing operations	90,310,320	158,318,851
Income tax attributable to discontinued operations	₩ -	₩ 1,481,315

Details of deferred income taxes charged directly to equity as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013	2012
Income tax		
Gain on disposal of treasury stock	₩ 72,585	₩ 150,603
Deferred income tax		
Equity adjustments in equity method, net	(44,796)	79,735
Gain (loss) on valuation of available-for-sale financial investments	(17,855,521)	(30,261,396)
Gain (loss) from translation of foreign operations	(11,913,118)	(4,400,359)
Re-measurement gain (loss) on defined benefit plans	(964,222)	14,998,600
Total	₩ (30,705,072)	₩ (19,432,817)

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

21. Income tax (cont'd)

A reconciliation of provision for income taxes applicable to income before income taxes at the Korea statutory tax rate to provision for income taxes at the effective tax rate of the Group is summarized as follows (Korean won in thousands):

	2013	2012
Profit before tax from continuing operations	₩ 436,002,680	₩ 583,428,545
Profit before tax from a discontinued operation	-	28,377,755
Income before income tax	436,002,680	611,806,300
Tax at the statutory income tax rate	119,226,133	167,150,885
Adjustments:		
- Income not taxable for tax purposes	(8,334,656)	(8,170,606)
- Expenses not deductible for tax purposes	11,372,436	8,773,761
- Effect of deferred income tax arising from temporary difference not recognized	1,542,890	1,588,732
- Tax credits	(38,889,588)	(2,277,004)
- Others	5,393,105	(7,265,602)
Provision for income tax	₩ 90,310,320	₩ 159,800,166
Income tax attributable to continued operations	90,310,320	158,318,850
Income tax attributable to discontinued operations	-	1,481,315
Effective income tax rate	20.7%	26.1%

Significant changes in tax credit carryforwards, cumulative temporary differences and deferred income tax assets and liabilities for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013			
	January. 1	Recognized to income	Recognized directly to equity	December. 31
Loss on valuation of inventories	₩ 11,137,344	₩ 5,607,356	₩ -	₩ 16,744,700
Depreciation	9,615,344	569,818	-	10,185,162
Impairment loss on property, plant and equipment	2,446,129	48,946	-	2,495,075
Defined benefit liability	28,971,334	13,872,880	(964,222)	41,879,992
Provisions	8,421,611	1,897,625	-	10,319,236
Investment in subsidiaries	(34,881,212)	(5,394,484)	(11,913,118)	(52,188,814)
Equity adjustment in equity method, net	(1,101,109)	-	(44,796)	(1,145,905)
Available-for-sale financial assets	(208,903,128)	3,983,919	(17,855,521)	(222,774,730)
Unused tax credit carryforwards from prior years	3,300,000	4,800,264	-	8,100,264
Deficit carryforwards	34,471,048	(10,050,387)	-	24,420,661
Others	(21,711,362)	12,680,374	72,585	(8,958,403)
Total	₩ (168,234,001)	₩ 28,016,311	₩ (30,705,072)	₩ (170,922,762)
Deferred income tax assets	13,453,003			18,950,208
Deferred income tax liabilities	(181,687,004)			(189,872,970)

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

21. Income tax (cont'd)

	2012			
	January.1	Recognized to income	Recognized directly to equity	December. 31
Loss on valuation of inventories	₩ 22,268,245	₩ (11,130,901)	₩ -	₩ 11,137,344
Depreciation	32,649,664	(23,034,320)	-	9,615,344
Impairment loss on property, plant and equipment	3,031,655	(585,526)	-	2,446,129
Defined benefit liability	7,478,457	6,494,277	14,998,600	28,971,334
Provisions	10,027,189	(1,605,578)	-	8,421,611
Investment in subsidiaries	(96,276,071)	65,795,218	(4,400,359)	(34,881,212)
Equity adjustment in equity method, net	(1,180,844)	-	79,735	(1,101,109)
Available-for-sale financial assets	(178,641,732)	-	(30,261,396)	(208,903,128)
Unused tax credit carryforwards from prior years	38,341,901	(35,041,901)	-	3,300,000
Deficit carryforwards	-	34,471,048	-	34,471,048
Others	22,159,247	(43,870,609)	-	(21,711,362)
Total	<u>₩ (140,142,289)</u>	<u>₩ (8,508,292)</u>	<u>₩ (19,583,420)</u>	<u>₩ (168,234,001)</u>
Deferred income tax assets	16,365,230			13,453,003
Deferred income tax liabilities	(156,507,519)			(181,687,004)

Deferred income tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the temporary differences are expected to reverse.

The Group did not recognize deferred tax liabilities associated with the taxable temporary difference of ₩ 95,563,186 thousand resulting from investment in subsidiaries and associates as the Group does not expect that those temporary differences will reverse in the foreseeable future.

Based on the Group's assessment of future taxable income, the Group's management concluded that it is probable that the recognized deferred income tax assets will be realized in future periods.

22. Profit attributable to non-controlling interests

Details of profit attributable to non-controlling interests for the year ended December 31, 2013 are as follows (Korean won in thousands):

	Minority ownership	Profit (loss) (*)	Attributable to non- controlling interests
SVIC#19 NEW TECHNOLOGY BUSINESS INVESTMENT	1.00%	₩ (1,682,609)	₩ (16,826)
Samsung Electro-Mechanics Thailand Co., Ltd.	25.00%	23,666,885	5,916,721
Calamba Premier Realty Corp.	60.20%	59,193	35,634
Batino Realty Corporation.	60.20%	116,306	70,016
Tianjin Samsung Electro-Machanics Co., Ltd.	18.24%	36,124,759	6,589,156
Samsung High Tech Electronics (Tianjin) Co., Ltd.	5.00%	57,153,933	2,857,697
Total		<u>₩ 115,438,467</u>	<u>₩ 15,452,398</u>

(*) Excludes profit (loss) from inter-company transactions.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

23. Per share amounts

The Company's basic earnings per share for the years ended December 31, 2013 and 2012 are computed as follows (Korean won in thousands, except per share amounts):

	2013		2012	
	Profit for the year	Profit for the year from continuing operations	Profit for the year	Profit for the year from continuing operations
Profit for the year	₩ 330,239,962	₩ 330,239,962	₩ 440,802,896	₩ 411,299,457
Preferred shares dividend	(2,282,843)	(2,282,843)	(2,282,843)	(2,282,843)
Additional dividends attributable to preferred shares	(10,007,959)	(10,007,959)	(14,079,201)	(12,993,269)
Profit for the year attributable to ordinary equity holders of the parent	317,949,160	317,949,160	424,440,852	396,023,345
Weighted-average number of shares of ordinary shares outstanding (*)	74,683,015	74,683,015	74,658,715	74,658,715
Basic earnings per share	₩ 4,257	₩ 4,257	₩ 5,685	₩ 5,304

(*) Weighted-average number of shares of ordinary shares outstanding is calculated as follows:

	2013	2012
Beginning weighted-average number of shares of ordinary shares	74,693,696	74,693,696
Treasury stock	(10,681)	(34,981)
	<u>74,683,015</u>	<u>74,658,715</u>

The Company's diluted earnings per share for the years ended December 31, 2013 and 2012 are computed as follows (Korean won in thousands, except per share amounts):

	2013		2012	
	Profit for the year	Profit for the year from continuing operations	Profit for the year	Profit for the year from continuing operations
Profit for the year attributable to ordinary equity holders of the parent	₩ 317,949,159	₩ 317,949,159	₩ 424,440,852	₩ 396,023,345
Weighted-average number of shares of ordinary shares outstanding adjusted for the effect of dilution (*)	74,688,070	74,688,070	74,677,221	74,677,221
Diluted earnings per share	₩ 4,257	₩ 4,257	₩ 5,684	₩ 5,303

(*) Weighted-average number of shares of ordinary shares outstanding adjusted for the effect of dilution is calculated as follows:

	2013	2012
Weighted-average number of shares of ordinary stock outstanding	74,683,015	74,658,715
Potential dilutive shares	5,055	18,506
	<u>74,688,070</u>	<u>74,677,221</u>

There are no potential ordinary shares that are anti-dilutive as at December 31, 2013.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

23. Per share amounts (cont'd)

The Company's basic (diluted) earnings per share from discontinued operation for the years ended December 31, 2013 and 2012 are as follows:

	2013		2012	
Basic earnings per share	₩	-	₩	381
Diluted earnings per share	₩	-	₩	381

24. Related party transactions

Samsung Electronics Co., Ltd. has significant influence on the Company. As at December 31, 2013, the Company has 21 subsidiaries.

Related parties of the Company as at December 31, 2013 are as follows:

Related party	Category
Samsung Electronics Co., Ltd	Company with significant influence
Samsung Economic Research Institute	Associates
Stemco Co., Ltd	Associates
Samsung SDS Co.,Ltd and other affiliates	Other affiliates

Outstanding balances resulted from the transactions among the Company and its related parties as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
	Receivables	Payables	Receivables	Payables
Company with significant influence				
Samsung Electronics Co., Ltd	₩ 90,673,773	₩ 14,319,213	₩ 97,484,117	₩ 22,431,661
Associate				
Samsung Economic Research Institute	-	1,518,041	-	1,266,183
Other affiliates (*)	193,219,075	46,301,027	297,439,983	40,907,577
Total	₩ 283,892,848	₩ 62,138,281	₩ 394,924,100	₩ 64,605,421

(*) Represents is ₩122,649,305 thousands in plan assets deposited with Samsung Life Insurance in addition to receivables from other affiliates described above.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

24. Related party transactions (cont'd)

Significant transactions among the Company and its related parties for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013			2012		
	Sales	Purchases	Acquisition tangible asset	Sales	Purchases	Acquisition tangible asset
Company with significant influence Samsung Electronics Co., Ltd	₩ 1,213,318,170	₩ 174,253,908	₩ 2,458,036	₩ 1,121,547,754	₩ 146,875,562	₩ -
Associate Samsung Economic Research Institute	-	5,448,501	-	-	3,939,539	-
Other affiliates	3,475,128,079	207,605,242	84,506,126	2,453,337,332	472,797,033	55,336,279
Total	₩ 4,688,446,249	₩ 387,307,651	₩ 86,964,162	₩ 3,574,885,086	₩ 623,612,134	₩ 55,336,279

There are no collateral or guarantees provided to or received from related parties as at December 31, 2013.

In relation to key management compensation of the Group for the year ended December 31, 2013, the Group recognized expenses for short-term benefits, including short-term incentives of ₩4,843,948 thousand and long-term benefits, including pension benefits of ₩2,499,192 thousand. Key management consists of registered executive officers who have authority and responsibility in the planning, operations and control of the business of the Group.

25. Supplementary consolidated cash flow information

Significant transactions not involving cash flows for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013	2012
Write-off of accounts and notes receivable	₩ 35,123	₩ 8,125,767
Reclassification of construction-in-progress	508,108,857	222,868,034
Reclassification of machinery-in-transit	111,904,118	217,048,871
Write-off of long-term loans	9,481,125	-
Transfer of current portion of long-term borrowings	92,173,146	195,750,271
Transfer of current portion of long-term accrued expenses	13,383,600	-
Increase of available-for-sale financial assets acquired by disposal of investments in subsidiary	-	293,655,281
Increase of gain on available-for-sale financial assets	56,229,693	95,183,649
Re-measurement gain on defined benefit plans	2,147,573	46,843,285
Disposal of unappropriated retained earning	373,000,000	217,200,000

26. Financial risk management objectives and policies

The Group's principal financial liabilities, comprise loans, bonds, lease liabilities, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. Also the Group has various financial assets including trade and other receivables, and cash and short-term deposits that arrive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk.

The Group's senior management oversees the management of these risks. Senior management is responsible for the financial risks and the appropriate financial risk governance framework for the Group and that the financial risk-taking activities are governed by appropriate policies and procedures. Senior management is responsible to assure financial risks are identified, measured and managed in accordance with company policies and company risk appetite. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk.

The sensitivity analyses in the following sections relate to the position as at December 31, 2013 and 2012.

26. Financial risk management objectives and policies (cont'd)

(1) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

Borrowings with floating interest rates amounts to ₩297,256,875 thousand, ₩343,336,551 thousand as at December 31, 2013 and 2012 respectively. The following table demonstrates a sensitivity analysis to a reasonably possible change in interest rates on that portion of borrowings. With all other variables held constant, the effect of changes in interest rates of floating rate borrowings on profit before tax is as follows (Korean won in thousands).

	2013		2012	
	+ 100bp	- 100bp	+ 100bp	- 100bp
Profit before tax	₩ (2,972,569)	₩ 2,972,569	₩ (3,433,366)	₩ 3,433,366

(2) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities and the Group's net investments in foreign subsidiaries. The book values of monetary assets and liabilities which are not presented in functional currency as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 1,265,536,807	₩ 1,278,377,616	₩ 1,169,229,571	₩ 1,501,068,814
EUR	63,458,224	56,707,082	56,152,793	48,508,982
JPY	24,744,778	35,910,103	29,086,476	41,754,622
PHP	216,205	2,179,881	5,848,837	8,688,021
HKD	-	4,582,317	-	2,959,115
SGD	496,591	1,003,035	393,717	1,820,788
Others	13,070,070	7,494,991	17,410,800	15,762,179
Total	₩ 1,367,522,675	₩ 1,386,255,025	₩ 1,278,122,194	₩ 1,620,562,521

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

26. Financial risk management objectives and policies (cont'd)

The Group manages its foreign currency risk periodically. The following table demonstrates a sensitivity analysis of a reasonably possible change in the foreign currency exchange rates, with all other variables held constant, on the Group's profit before tax as at December 31, 2013 and 2012. (Korean won in thousands):

	2013		2012	
	+ 5%	- 5%	+ 5%	- 5%
USD	₩ (642,041)	₩ 642,041	₩ (16,591,962)	₩ 16,591,962
EUR	337,557	(337,557)	382,191	(382,191)
JPY	(558,266)	558,266	(633,407)	633,407
PHP	(98,184)	98,184	(141,959)	141,959
HKD	(229,116)	229,116	(147,956)	147,956
SGD	(25,322)	25,322	(71,353)	71,353
Others	278,754	(278,754)	82,431	(82,431)
Total	₩ (936,618)	₩ 936,618	₩ (17,122,015)	₩ 17,122,015

The sensitivity analyses were conducted on monetary assets and liabilities which are presented in foreign currency other than functional currency as of the reporting date.

(3) Other price risk

The Group's marketable available-for-sale equity securities are susceptible to market price risk arising from the fluctuation in the price of the securities. The following table demonstrates a sensitivity analysis of a reasonably possible change in the price of marketable equity securities on the financial statements of the Group as at December 31, 2013 (Korean won in thousands):

	+ 5%	- 5%
Other comprehensive income before tax	₩ 17,691,823	₩ (17,691,823)
Income tax	(4,281,421)	4,281,421
Other comprehensive income after tax	₩ 13,410,402	₩ (13,410,402)

26. Financial risk management objectives and policies (cont'd)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss of the Group. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

(1) Trade receivables and other receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance. The maximum exposure to credit risk at the reporting date is as follows (Korean won in thousands):

	2013	2012
Trade receivables	₩ 724,361,038	₩ 931,131,014
Other receivables	137,054,668	93,300,658

The Group evaluates the impairment of trade receivables and other receivables at every reporting date. In addition, the Group entered into guarantee insurance contracts with Korea Trade Insurance Corporation and other insurance corporations for the credit risk of foreign customers

(2) Other assets

Credit risks associated with the Group's other assets which consist of cash, short-term deposits and short-term and long-term loans arise from the default by the counterparties. Maximum exposure to credit risks will be the book value of the related other assets. The Group deposits its surplus funds in Woori Bank and other financial institutions whose credit ratings are high, therefore credit risk related to financial institutions is considered limited.

26. Financial risk management objectives and policies (cont'd)

Liquidity risk

Liquidity risk refers to the risk that the Group may default on the contractual obligations that become due. The Group manages its risk to a shortage of funds using a recurring liquidity planning tool. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, finance leases and hire purchase contracts. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with the existing lenders.

The Group matches the financial liabilities with the financial assets taking into account the maturity dates and cash flow from operating activities of those financial assets.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (Korean won in thousands):

	2013			
	Less than 3 months	3 to 12 months	1 to 5 years	Total
Trade and other payables	₩ 817,994,449	₩ -	₩ 7,778,882	₩ 825,773,331
Short-term borrowings	806,216,625	-	-	806,216,625
Current portion of long-term borrowings	-	90,592,005	-	90,592,005
Long-term borrowings	-	-	709,079,146	709,079,146
Other financial liabilities	40,115,972	5,391,206	-	45,507,178
Total	₩ 1,664,327,046	₩ 95,983,211	₩ 716,858,028	₩ 2,477,168,285

	2012			
	Less than 3 months	3 to 12 months	1 to 5 years	Total
Trade and other payables	₩ 917,796,403	₩ -	₩ 21,963,663	₩ 939,760,066
Short-term borrowings	718,158,191	83,165,841	-	801,324,032
Current portion of long-term borrowings	4,017	140,261,449	-	140,265,466
Long-term borrowings	-	-	579,479,068	579,479,068
Other financial liabilities	5,807,802	1,408,941	-	7,216,743
Total	₩ 1,641,766,413	₩ 224,836,231	₩ 601,442,731	₩ 2,468,045,375

26. Financial risk management objectives and policies (cont'd)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain the sound capital structure, the Group may adjust the dividend payment to shareholders, reduce capital stock, or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2013 and 2012.

The Group monitors a gearing ratio, which is net debt divided by total capital, which is equity plus net debt. Net debt refers to interest bearing loans and bonds, less cash and cash equivalents.

The gearing ratios as of the reporting date are computed as follows (Korean won in thousands):

	2013	2012
Trade and other payables	₩ 825,773,331	₩ 939,760,066
Borrowings	1,605,887,776	1,521,068,566
Other financial liabilities	45,507,178	7,216,743
Less: Cash and cash equivalent	(738,482,641)	(683,529,614)
Net debt	1,738,685,644	1,784,515,761
Equity	4,258,027,439	3,965,648,035
Total capital (Net debt and shareholder's equity)	₩ 5,996,713,083	₩ 5,750,163,796
Gearing ratio	28.99%	31.03%

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

27. Fair value

Details of book values and fair values of financial assets and liabilities as at December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013		2012	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Loans and receivables				
Cash and cash equivalents	₩ 738,482,641	₩ 738,482,641	₩ 683,529,614	₩ 683,529,614
Accounts and notes receivable	861,415,706	861,415,706	1,024,431,672	1,024,431,672
Loans receivable	2,222,585	2,222,585	7,781,115	7,781,115
Other financial assets	83,414,350	83,414,350	65,364,813	65,364,813
Available-for-sale financial assets	1,225,713,524	1,225,713,524	1,332,631,135	1,332,631,135
Held-to-maturity investments	361,380	361,380	361,770	361,770
Total financial assets	₩ 2,911,610,186	₩ 2,911,610,186	₩ 3,114,100,119	₩ 3,114,100,119
Financial liabilities:				
Amortised cost of financial liabilities				
Accounts and notes payable	₩ (825,773,331)	₩ (825,773,331)	₩ (939,760,066)	₩ (939,760,066)
Other financial liabilities	(45,507,178)	(45,507,178)	(7,216,743)	(7,216,743)
Short-term borrowings	(806,216,625)	(806,216,625)	(801,324,032)	(801,324,032)
Current portion of long-term borrowings	(90,592,005)	(90,592,005)	(140,265,466)	(140,265,466)
Long-term borrowings	(709,079,146)	(709,079,146)	(579,479,068)	(579,479,068)
Total financial liabilities	₩ (2,477,168,285)	₩ (2,477,168,285)	₩ (2,468,045,375)	₩ (2,468,045,375)

27. Fair value (cont'd)

Fair value measurement

The Group has measured and disclosed the fair value measurement hierarchy of the Group's assets and liabilities as level 3 except for financial instrument measured as level 1. There have been no transfers between level 1 and level 2 during the year ended December 31, 2013.

Fair value on the statement of financial position:

As at December 31, 2013 and 2012 the Group held the following financial instruments carried at fair value on the statement of financial position (Korean won in thousands):

	Level 1	Level 2	Level 3	Total
2013:				
Financial assets				
- Available-for-sale financial assets	₩ 353,836,467	₩ -	₩ 871,877,057	₩ 1,225,713,524
2012:				
Financial assets				
- Available-for-sale financial assets	₩ 508,851,922	₩ -	₩ 811,308,271	₩ 1,320,160,193

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

27. Fair value (cont'd)

Details of income and expenses arising from financial instruments by categories for the years ended December 31, 2013 and 2012 are as follows (Korean won in thousands):

	2013					Total
	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Financial liabilities carried at amortized cost		
Interest income	₩ 12,894,609	₩ -	₩ 3,936	₩ -	₩ 12,898,545	
Dividend income	-	9,381,191	-	-	9,381,191	
Gain on foreign currency transactions	31,187,592	-	-	153,380,385	184,567,977	
Gain on foreign currency translation	11,527,784	-	-	11,597,384	23,125,168	
Reversal of allowance for other doubtful accounts	3,253,091	-	-	-	3,253,091	
Gain on valuation of available-for-sale financial assets	-	56,229,693	-	-	56,229,693	
Reversal of impairment loss on available-for-sale financial assets	-	51,265	-	-	51,265	
Bad debt expenses	(372,355)	-	-	-	(372,355)	
Interest expenses	-	-	-	(42,169,601)	(42,169,601)	
Loss on foreign currency transactions	(122,042,274)	-	-	(45,834,126)	(167,876,400)	
Loss on foreign currency translation	(10,213,895)	-	-	(13,551,154)	(23,765,049)	
Loss on disposal of trade notes and accounts receivable	(2,659,264)	-	-	-	(2,659,264)	
Loss on disposal of available-for-sale financial assets	-	(27,062,359)	-	-	(27,062,359)	
Impairment loss on available-for-sale financial assets	-	(1,393,187)	-	-	(1,393,187)	
Total	₩ (76,424,712)	₩ 37,206,603	₩ 3,936	₩ 63,422,888	₩ 24,208,715	

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

27. Fair value (cont'd)

	2012				
	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Financial liabilities carried at amortized cost	Total
Interest income	₩ 17,309,246	₩ -	₩ 5,160	₩ -	₩ 17,314,406
Dividend income	-	9,953,764	-	-	9,953,764
Gain on foreign currency transactions	36,372,631	-	-	90,093,029	126,465,660
Gain on foreign currency translation	17,592,219	-	-	44,779,411	62,371,630
Reversal of allowance for other doubtful accounts	2,943,607	-	-	-	2,943,607
Gain on valuation of available-for-sale financial assets	-	95,183,649	-	-	95,183,649
Gain on disposal of available-for-sale financial assets	-	1,724,939	-	-	1,724,939
Bad debt expenses	(1,066,204)	-	-	-	(1,066,204)
Interest expenses	-	-	-	(49,275,760)	(49,275,760)
Loss on foreign currency transactions	(45,514,675)	-	-	(87,825,844)	(133,340,519)
Loss on foreign currency translation	(27,655,568)	-	-	(30,755,106)	(58,410,674)
Loss on disposal of trade notes and accounts receivable	(3,886,748)	-	-	-	(3,886,748)
Loss on disposal of available-for-sale financial assets	-	(4,048,005)	-	-	(4,048,005)
Impairment loss on available-for-sale financial assets	-	(1,009,615)	-	-	(1,009,615)
Total	₩ (3,905,492)	₩ 101,804,732	₩ 5,160	₩ (32,984,270)	₩ 64,920,130

28. Assets held for sale and discontinued operations

On December 26, 2011, the Company announced its decision to sell its equity interest in Samsung LED Co., Ltd. to Samsung Electronics Co., Ltd. for an in-kind consideration of 269,867 ordinary shares of Samsung LED Co., Ltd. Samsung LED Co., Ltd. engages in the manufacture and sales of Light-Emitting Diode (LED), which consists of the LED operating segment of the Group. The sale of equity interest to Samsung Electronics Co., Ltd. was completed on April 1, 2012. The assets and liabilities of Samsung LED Co., Ltd. including its subsidiaries were classified as assets held for sale as well as the liabilities directly associated with such assets. Gains related to Samsung LED Co., Ltd. have been presented as profit from discontinued operations up to the first quarter ended March 31, 2012.

Samsung Electro-Mechanics Co., Ltd.
Notes to consolidated financial statements
December 31, 2013 and 2012

28. Assets held for sale and discontinued operations (cont'd)

The financial performance of discontinued operations for the year ended December 31, 2012 are as follows (Korean won in thousands):

	2012
Sales	₩ 367,422,761
Cost of sales	(275,976,152)
Gross profit	91,446,609
Selling and administrative expenses	(96,260,074)
Other operating income	26,327,378
Other operating expenses	(21,029,082)
Operating income	484,831
Finance income	321,450
Finance costs	(8,438,703)
Gain (loss) on investments, net	(2,341,696)
Others	-
Income (loss) before income taxes	(9,974,118)
Gain on disposal of assets classified as held for sale	38,351,873
Provision for income taxes	1,481,315
Profit after tax for the year from discontinued operations	₩ 26,896,440
Profit after tax for the year from discontinued operations attributable to:	
Owners of the parent	29,503,439
Non-controlling interests	(2,606,999)