

**Daewoo Shipbuilding & Marine
Engineering Co., Ltd.**
Separate Interim Financial Statements
June 30, 2018 and 2017

Daewoo Shipbuilding & Marine Engineering Co., Ltd.
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June 30, 2018 and 2017

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Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of
Daewoo Shipbuilding & Marine Engineering Co., Ltd.

Reviewed Financial Statements

We have reviewed the accompanying separate interim financial statements of Daewoo Shipbuilding & Marine Engineering Co., Ltd. (the "Company"). These financial statements consist of the separate interim statement of financial position of the Company as at June 30, 2018, and the related separate interim statements of profit or loss and comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, and separate interim statements of changes in equity and cash flows for the six-month periods ended June 30, 2018 and 2017, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to issue a report on these separate interim financial statements based on our review.

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

Conclusion

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

Other Matters

We have audited the separate statement of financial position of the Company as at December 31, 2017, and the related separate statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, in accordance with Korean Standards on Auditing. We expressed an unqualified opinion on those financial statements, not presented herein, in our audit report dated March 22, 2018. The separate statement of financial position as at December 31, 2017, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as at December 31, 2017.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea
August 14, 2018

This report is effective as of August 14, 2018, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.
Separate Interim Statements of Financial Position
June 30, 2018 and December 31, 2017

<i>(in millions of Korean won)</i>	Notes	June 30, 2018 (Unaudited)	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents	5,6,36	₩ 325,133	₩ 160,139
Short-term financial instruments	5,7,36	51,965	82,504
Financial assets at fair value through profit or loss	4,5,8,26,36,44	7,810	31,377
Current portion of held-to-maturity financial assets	5,8,44	6	27
Trade and other receivables	5,8,36,37	410,211	443,129
Contract assets	5,9,37,44	3,817,556	-
Due from customers for contract work	5,9,37,44	-	4,046,598
Current firm commitment assets	26	10,629	5,593
Current portion of currency forward assets	4,5,26,36	9,459	70,139
Inventories	10,16	1,383,588	724,178
Other current assets	11,44	586,836	962,624
Non-current assets held for sale	12,16	2,862	40,481
		<u>6,606,055</u>	<u>6,566,789</u>
Non-current assets			
Long-term financial instruments	5,7,44	391,502	414,024
Financial assets at fair value through profit or loss	4,5,8,16,36,44	16,592	-
Held-to-maturity financial assets	5,8,44	324	305
Available-for-sale financial assets	4,5,8,44	-	52,085
Financial assets at fair value through other comprehensive income	4,5,8,44	29,573	-
Investments in subsidiaries	13,16	23,007	23,007
Investments in associates and joint ventures	14	11,935	11,935
Long-term trade and other receivables	5,8,36,37	119,927	130,917
Firm commitment assets	26	13,375	314
Currency forward assets	4,5,26	18,276	67,637
Property, plant and equipment	15,16	3,736,410	3,724,845
Investment properties	16,17	7,854	7,914
Intangible assets	18	16,402	13,338
Other non-current assets	11,44	9,118	9,634
		<u>4,394,295</u>	<u>4,455,955</u>
Total assets		<u>₩ 11,000,350</u>	<u>₩ 11,022,744</u>

Daewoo Shipbuilding & Marine Engineering Co., Ltd.
Separate Interim Statements of Financial Position
June 30, 2018 and December 31, 2017

<i>(in millions of Korean won)</i>	Notes	June 30, 2018 (Unaudited)	December 31, 2017
Liabilities			
Current liabilities			
Short-term borrowings	5,16,21,36,43,44 ₩	1,621,415 ₩	1,950,686 ₩
Financial liabilities at fair value through profit or loss	4,5,26,36,44	5,864	51,504
Trade and other payables	5,19,36,44	815,855	1,080,635
Current portion of long-term borrowings	5,16,21,36,43,44	197,696	435,253
Current financial guarantee liabilities	4,5,36	-	29,367
Current firm commitment liabilities	26	5,969	28,020
Current portion of currency forward liabilities	4,5,26,36	35,070	10,023
Due to customers for contract work	9,26,37,44	-	2,378,487
Contract liabilities	9,26,37,44	1,892,535	-
Provisions	24,44	397,174	-
Other current liabilities	22,44	151,442	78,154
		<u>5,123,020</u>	<u>6,042,129</u>
Non-current liabilities			
Debentures	5,20,36,43,44	550,932	530,661
Long-term borrowings	5,16,21,36,43,44	935,241	638,935
Long-term trade and other payables	5,19,36,44	90,281	114,125
Net defined benefit liabilities and other long-term employee benefits	23	166,687	158,392
Provisions	24,38	613,584	677,434
Financial guarantee liabilities	4,5,36	1,515	2,369
Finance lease obligations		32,045	-
Firm commitment liabilities	26	17,492	65,508
Currency forward liabilities	4,5,26,36	10,465	264
Deferred tax liabilities		64,933	48,911
		<u>2,483,175</u>	<u>2,236,599</u>
Total liabilities		<u>7,606,195</u>	<u>8,278,728</u>
Equity			
Share capital	27,36,43	541,029	538,281
Other contributed capital	29,36,43	(257)	351,159
Hybrid bonds	29,36,43	2,332,832	2,284,775
Components of other capital	29,44	332,563	347,327
Retained earnings (accumulated deficit)	28,44	187,988	(777,526)
Total equity		<u>3,394,155</u>	<u>2,744,016</u>
Total liabilities and equity		<u>₩ 11,000,350</u>	<u>₩ 11,022,744</u>

The above separate interim statements of financial position should be read in conjunction with the accompanying notes.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.
Separate Interim Statements of Profit or Loss
Three-Month and Six-Month Periods Ended June 30, 2018 and 2017

<i>(in millions of Korean won, except per share amounts)</i>	Notes	Period Ended June 30			
		2018 (Unaudited)		2017 (Unaudited)	
		Three months	Six months	Three months	Six months
Sales	26,36,37,41,44	₩ 2,311,968	₩ 4,569,134	₩ 3,241,071	₩ 5,774,146
Cost of sales	35,36,38,44	2,022,076	4,005,072	2,184,647	4,434,560
Gross profit	41,44	289,892	564,062	1,056,424	1,339,586
Selling expenses	31,35,36	16,644	31,105	36,896	80,257
Administrative expenses	31,35,36	(13,287)	12,694	92,952	127,870
Research and development expenses	35	12,715	25,433	8,194	19,684
Impairment loss(reversal of impairment loss)		31,784	(64,740)	256,454	235,083
Operating profit		242,036	559,570	661,928	876,692
Finance income	5,32,36	37,180	37,446	1,374,356	1,398,562
Interest income	5,32,36	10,974	16,044	4,695	8,808
Finance costs	5,32,36	41,220	79,005	11,792	25,109
Share of profit in subsidiaries, associates and joint ventures	13,14	-	-	1,126	13,341
Foreign exchange gains	4,5,33	172,486	214,083	(38,566)	383,687
Foreign exchange losses	4,5,33	93,237	184,343	(67,275)	426,114
Other non-operating income	5,26,34	68,243	124,017	(106,868)	390,001
Other non-operating expenses	5,26,34	89,848	133,007	709,081	1,132,342
Other impairment loss (reversal of other impairment loss)	5,8	(19,056)	(21,064)	(6,200)	(8,105)
Profit before income tax expense		325,670	575,869	1,249,273	1,495,631
Income tax expense(benefit)	25	4,302	14,052	(17,320)	6,484
Profit for the period		₩ 321,368	₩ 561,817	₩ 1,266,593	₩ 1,489,147
Earnings per share					
Basic earnings per share <i>(in Korean won)</i>	30	₩ 2,943	₩ 5,143	₩ 19,156	₩ 22,616
Diluted earnings per share <i>(in Korean won)</i>	30	₩ 1,643	₩ 3,074	₩ 14,016	₩ 16,579

The above separate interim statements of profit or loss should be read in conjunction with the accompanying notes .

Daewoo Shipbuilding & Marine Engineering Co., Ltd.
Separate Interim Statements of Comprehensive Income
Three-Month and Six-Month Periods Ended June 30, 2018 and 2017

<i>(in millions of Korean won)</i>	Period Ended June 30			
	2018		2017	
	(Unaudited)		(Unaudited)	
	Three months	Six months	Three months	Six months
Profit for the period	₩ 321,368	₩ 561,817	₩ 1,266,593	₩ 1,489,147
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Remeasurements of net defined benefit liabilities	(525)	(1,598)	(3,303)	(4,578)
Loss on revaluation of property, plant and equipment	-	-	(65,848)	(65,801)
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	626	(2,921)	-	-
<i>Items that may be reclassified subsequently to profit or loss</i>				
Changes in the fair value of available-for-sale financial assets	-	-	(843)	1,002
	101	(4,519)	(69,994)	(69,377)
Total comprehensive income for the period	₩ 321,469	₩ 557,298	₩ 1,196,599	₩ 1,419,770

The above separate interim statements of comprehensive income should be read in conjunction with the accompanying notes.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.
Separate Interim Statements of Changes in Equity
Six-Month Periods Ended June 30, 2018 and 2017

(in millions of Korean won)

	Other contributed capital				Components of other capital			Retained earnings (accumulated deficit)	Total
	Share capital	Other capital	Treasury stock	Hybrid bond	Changes in fair value of available-for-sale financial asset	Gain (loss) on valuation of financial assets at FVTOCI	Revaluation surplus of property, plant and equipment		
Balance at January 1, 2017	₩ 332,885	₩ 2,808,828	₩ -	₩ 1,000,000	₩ 9,769	₩ -	₩ 416,891	₩ (4,329,456)	₩ 238,917
Acquisition of treasury stock	-	-	(726)	-	-	-	-	-	(726)
Transfer of capital surplus to accumulated deficit	-	(2,825,626)	-	-	-	-	-	2,825,626	-
Interest payment for hybrid bonds	-	-	-	-	-	-	-	(15,007)	(15,007)
Debt to equity swap	98,235	418,859	-	-	-	-	-	-	517,094
Issuance of permanent convertible notes	-	(264)	-	1,284,775	-	-	-	-	1,284,511
Profit for the period	-	-	-	-	-	-	-	1,489,147	1,489,147
Other comprehensive income	-	-	-	-	1,002	-	(66,399)	(3,980)	(69,377)
Balance at June 30, 2017 (Unaudited)	₩ 431,120	₩ 401,797	₩ (726)	₩ 2,284,775	₩ 10,771	₩ -	₩ 350,492	₩ (33,670)	₩ 3,444,559
Balance at January 1, 2018	₩ 538,281	₩ 351,885	₩ (726)	₩ 2,284,775	₩ 12,387	₩ -	₩ 334,940	₩ (777,526)	₩ 2,744,016
Effect of changes in accounting policies (Note 44)	-	-	-	-	(12,387)	543	-	63,923	52,079
Adjusted balance at January 1, 2018	538,281	351,885	(726)	2,284,775	-	543	334,940	(713,603)	2,796,095
Transfer of capital surplus to accumulated deficit	-	(341,349)	-	-	-	-	-	341,349	-
Debt to equity swap	2,748	10,431	-	-	-	-	-	-	13,179
Issuance of permanent convertible notes	-	(20,498)	-	48,057	-	-	-	-	27,559
Gain on equity instrument at fair value through other comprehensive income	-	-	-	-	-	-	-	23	23
Profit for the period	-	-	-	-	-	-	-	561,817	561,817
Other comprehensive income	-	-	-	-	-	(2,920)	-	(1,598)	(4,518)
Balance at June 30, 2018 (Unaudited)	₩ 541,029	₩ 469	₩ (726)	₩ 2,332,832	₩ -	₩ (2,377)	₩ 334,940	₩ 187,988	₩ 3,394,155

The above separate interim statement of changes in equity should be read in conjunction with the accompanying notes.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.
Separate Interim Statement of Cash Flows
Six-Month Periods Ended June 30, 2018 and 2017

<i>(in millions of Korean won)</i>	Notes	Six-Month Period Ended June 30	
		2018 (Unaudited)	2017 (Unaudited)
Cash flows from operating activities			
Cash generated from(used in) operations	39, 44	₩ 509,044	₩ (150,203)
Dividends received		7,215	672
Interests received		17,171	8,861
Interests paid		(56,197)	(84,172)
Income tax received(paid)		3,675	(194)
Net cash inflow (outflow) from operating activities		480,908	(225,036)
Cash flows from investing activities			
	40		
Cash inflows from investing activities:			
Acceptance of governments grants		-	3,433
Decrease in short-term financial instruments		54,160	-
Decrease in short-term loans receivable		15,428	36,649
Disposal of held-to-maturity financial assets		21	1
Disposal of available-for-sale financial assets		-	1,410
Disposal of financial assets at fair value through other comprehensive income		6,208	-
Disposal of non-current assets held for sale		38,295	181,141
Decrease in long-term loans receivable		-	4,205
Disposal of property, plant and equipment/intangible assets		798	4,640
Disposal of investments in associates and joint venture		-	1,126
		114,910	232,605
Cash outflows from investing activities:			
Increase in short-term financial instruments		772	6,360
Redemption of governments grants		-	653
Increase in short-term loans receivable		-	36,056
Increase in long-term financial instruments		328	-
Acquisition of financial instruments at fair value through profit or loss		6,250	-
Acquisition of held-to-maturity financial assets		19	-
Acquisition of available-for-sale financial assets		-	10
Acquisition of investment in subsidiaries		-	200
Increase in long-term loans receivable		2,234	-
Acquisition of property, plant and equipment/intangible assets		55,172	19,317
Acquisition of other investments		43	71
		64,818	62,667
Net cash inflow from investing activities		50,092	169,938

The above separate interim statements of cash flows should be read in conjunction with the accompanying notes.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.
Separate Interim Statement of Cash Flows
Six-Month Periods Ended June 30, 2018 and 2017

<i>(in millions of Korean won)</i>	Notes	2018 (Unaudited)	2017 (Unaudited)
Cash flows from financing activities	40		
Cash inflows from financing activities:			
Proceeds from short-term borrowings		84,897	893,916
Reversal of payment of share issue cost		3	13
		84,900	893,929
Cash outflows from financing activities:			
Repayment of short-term borrowings		442,486	437,929
Repayment of current portion of long-term borrowings		4	60
Repayment of current portion of debentures and long-term borrowings		-	86
Repayment of finance lease obligations		8,629	-
Payment of share issue cost		29	143
Acquisition of treasury stock		-	726
Interests paid on convertible notes		-	15,007
		451,148	453,951
Net cash inflow (outflow) from financing activities		(366,248)	439,978
Net increase in cash and cash equivalents		164,752	384,880
Cash and cash equivalents at the beginning of the period		160,139	144,293
Effects of exchange rate changes on the cash and cash equivalents		242	511
Cash and cash equivalents at the end of the period	6	₩ 325,133	₩ 529,684

The above separate interim statements of cash flows should be read in conjunction with the accompanying notes.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.

Notes to the Separate interim Financial Statements

June 30, 2018 and 2017(Unaudited), and December 31, 2017

1. General Information

Daewoo Shipbuilding & Marine Engineering Co., Ltd. (the "Company") was established on October 1, 2000, as one of entities spun-off from Daewoo Heavy Industry Co., Ltd. The spun-off registration date is October 23, 2000. On February 2, 2001, the Company listed its stock on the Korea Exchange. Moreover, the Company changes its name from Daewoo Shipbuilding & Commerce Co., Ltd. to Daewoo Shipbuilding & Marine Engineering Co., Ltd. The Company's major businesses are building and selling various types of ship, including special-purpose ships and construction of offshore plants. As at June 30, 2018, the Company's major shareholder is Korea Development Bank ("KDB") (55.72%).

2. Significant Accounting Policies

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

2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying separate interim financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

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

The Company's condensed separate interim financial statements for the six-month period ended June 30, 2018, have been prepared in accordance with Korean IFRS 1034, *Interim Financial Reporting*. These condensed separate interim financial statements have been prepared in accordance with Korean IFRS which is effective or early adopted as at June 30, 2018.

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027 *Separate Financial Statements*. Investments in subsidiaries, joint ventures and associates are recognized at cost under the direct equity method.

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2.1.1 New and Amended Standards Adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendment does not have a significant impact on the financial statements because the Company is not a venture capital organization.

- Amendment to Korean IFRS 1040 *Transfers of Investment Property*

Paragraph 57 of Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The Company does not expect the amendment to have a significant impact on the financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendment does not have a significant impact on the financial statements.

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The enactment does not have a significant impact on the financial statements.

- Korean IFRS 1109 *Financial Instruments*

The Company has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated, and the differences between previous book amounts and book amounts at the date of initial application are recognized to retained earnings. See Note 44 for further details on the impact of the application of the standard.

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- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Company has elected to apply Korean IFRS 1115 *Revenue from Contracts with Customers*. In accordance with the transition provisions in Korean IFRS 1115, comparative figures have not been restated. The Company elected the modified retrospective approach, and recognized the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings as at January 1 2018, the period of initial application. See Note 44 for further details on the impact of the application of the standard.

2.1.2 New Standards and Interpretations not yet Adopted by the Company

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2018 and have not been early adopted by the Company are set out below.

- Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*. The Company will apply the standards for annual periods beginning on or after January 1, 2019.

Under the new standard, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

The Company did not perform an impact assessment to identify potential financial effects of applying Korean IFRS 1116; therefore, it is difficult to provide reasonable estimates of financial effects

2.2 Significant Accounting Policies

Significant accounting policies and method of computation used in the preparation of the condensed separate interim financial statements are consistent with those of the separate financial statements for the year ended December 31, 2017, except for the changes due to the application of amendment and enactments of standards described in Note 2.1.1 and the one described below.

2.2.1 Income Tax Expense

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

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2.2.2 Financial Assets

(a) Classification

From January 1, 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Company reclassifies debt investments only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. Changes in fair value of the investments in equity instruments that are not accounted for as other comprehensive income are recognized in profit or loss.

(b) Measurement

At initial recognition, the Company measures a financial asset, in the case of a financial asset not at fair value through profit or loss, at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset or the issuance of the financial liabilities. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Hybrid (combined) contracts with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into one of the following three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is

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derecognized or impaired. Interest income from these financial assets using the effective interest rate method is presented separately in the statements of comprehensive income.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (and reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Foreign exchange gains and losses are presented in 'foreign exchange gains and losses' and impairment loss in 'other non-operating expenses'. Interest income from these financial assets using the effective interest rate method is presented separately in the statements of comprehensive income.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'other non-operating income or other non-operating expenses' in the period in which it arises.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as 'finance income' when the Company's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'other non-operating income or other non-operating expenses' in the statement of profit or loss as applicable. Impairment loss (and reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

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(c) Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost or fair value through other comprehensive income and contract assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and contract assets, the Company applies the simplified approach, which requires expected losses to be estimated considering past experience of credit losses.

(d) Derivative Instruments and Hedging Activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The Company entered into forward exchange contracts to hedge the risk in changes of exchange rates related to foreign currency construction such as advance received and collection on delivery, and designates the contracts as hedging instruments.

The Company documents hedging relationship and risk management objective and strategy for undertaking hedge transactions at the inception of each hedge relationship.

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 4.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Derivatives held for trading are classified as a current asset or liability.

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2.2.3 Revenue Recognition

From January 1, 2018, the Company has applied Korean IFRS 1115 *Revenue from Contracts with Customers*.

(a) Identify performance obligation

The Company provides commercial ships, offshore plant, special ships and other business division to customers. During six-month period ended June 30, 2018, revenue from the commercial ships, offshore plant, special ships division amount to ₩ 3,375,231 million and ₩ 1,167,298 million, respectively, which represent 73.9% and 25.5% of the Company's total revenue, respectively.

With the implementation of Korean IFRS 1115, the Company identifies a construction of each vessels in contracts entered by commercial ships, offshore plants and special ships division as a performance obligation. Goods or services that are distinct such as purchase and procurement activity are identified as a separate performance obligation.

(b) A performance obligation is satisfied over time

The ships and offshore plant division, and special ships division of the Company build and sell ships ordered by customers, and it generally takes over one-year to build. The Company recognizes revenue over time based on costs incurred relative to total estimated costs to determine the extent of progress toward completion. However, if the Company may not be able to reasonably measure the progress towards completion, the Company recognizes revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

In accordance with Korean IFRS 1115, revenue is recognized over time, if one of the following three criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- The entity's performance creates or enhances an assets that the customer controls as the asset is created or enhanced; or.
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

As a result of the contract terms and conditions analysis, the Company recognizes revenue over time on the basis that the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

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(c) Input methods for measuring progress

Accounting to Korean IFRS 1115, a faithful depiction of the Company's performance might be to recognize revenue at an amount equal to the cost of goods used to satisfy a performance obligation if the Company expects at contract inception that all of the following conditions would be met: i) the goods are not distinct; ii) the customer is expected to obtain control of the goods significantly before receiving services related to the goods; iii) the costs of the transferred goods are significant relative to the total expected costs to completely satisfy the performance obligation; and iv) the Company procures the goods from a third party and is not significantly involved in designing and manufacturing the goods. Therefore, the Company excludes the cost which meets the above conditions from measuring progress and recognizes revenue at an amount equal to the cost.

(d) Variable consideration

The Company may experience variable consideration due to liquidated damage (LD) and change order caused by the delays in delivery and overweight of vessels. With implementation of Korean IFRS 1115, the Company estimates an amount of variable consideration by using the expected value which the Company expects to better predict the amount of consideration. The Company recognizes revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with variable consideration has resolved.

(e) The existence of a significant financing component in the contract

According to Korean IFRS 1115, in determining the transaction price, an entity adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.

According to Korean IFRS 1115, the consideration is recognized as revenue when there is significant financing component in a contract. The Company adjusted the promised amount of consideration for the effects of a significant financing component (Note 44).

(f) Incremental costs of obtaining a contract

The Company pays broker commissions to its brokers based on supply contracts signed through the brokers. The commission is an incremental cost because it would not have incurred if the contract has not been obtained.

With implementation of Korean IFRS 1115, the Company recognizes as an asset the incremental costs of obtaining a contract with a customer if the Company expects to recover those costs, and costs that are recognized as assets are amortized based on the progress towards complete satisfaction.

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(g) Warranties

The Company analysed the impact of the warranties, and concluded that the amendment does not have a significant impact on the financial statements.

The Company provides customers for certain project with another warranty in addition to the standard warranty assuring that the product complies with agreed-upon specifications. Therefore, the promised service is a performance obligation in accordance with Korean IFRS 1115.

In accordance with Korean IFRS 1115, if the Company provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications, the Company accounts for the promised warranty as a performance obligation and allocate a portion of the transaction price to that performance obligation.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Significant accounting estimates and assumptions applied in the preparation of these condensed interim financial statements are the same as those applied to the financial statements for the year ended December 31, 2017, except for the estimates used to determine income tax expense, and accounting estimates and assumptions for implementation of Korean IFRS 1109 explained as below.

3.1 Impairment of financial assets

The provision for impairment for financial assets disclosed in Note 8 are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

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3.2 Construction Contracts

3.2.1 Revenue Recognition based on the Input Method

The Company recognizes contract revenue and contract cost associated with the construction contract as revenue and expense respectively based on the percentage of completion of the contract activity at the end of the reporting period when the outcome of a construction contract can be estimated reliably. The percentage of completion of the contract activity is determined based on the proportion of costs incurred to date, excluding any contract cost that does not reflect the work performed, to the estimated total costs of the contract. The Company presents the gross amount due from customer for contract work as an asset for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings, and presents the gross amount due to customers for contract work as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

3.2.2 Uncertainty of Estimated Total Contract Costs

Contract revenue is affected by the stage of completion of a contract which is determined by reference to the contract costs incurred to date. Total contract costs is estimated based on future estimates of material cost, labor cost and construction period and others. During the prior period, unexpected process delay in offshore plants have occurred, which was not expected from the prior period, and caused the delivery date to be concentrated in a specific time period with increasing the inefficiency in respective process. As a result, the general construction costs to estimated costs have significantly increased. Such process delay in offshore plants and occurrence of inefficiency caused increase in the uncertainty of estimated total contract costs.

As at June 30, 2018, when the estimation of remaining contract costs for construction in progress changes by 5%, the effect to profit for the period before income tax and net asset before income tax effect decreases by ₩386,287 million.

3.2.3 Uncertainty of Estimates in Collectability of Contract Assets (Due from Customer under Construction Contracts)

The Company assesses at the end of each reporting period whether there is any objective evidence that contract assets (due from customer under construction contracts) is impaired. The objective evidences include adverse change in customer's financial situation, delay in construction process or increase in possibility of cancellation due to decrease in vessel price and delay in delivery schedule. After the Company's assessment on the objective evidence of impairment and if there is objective evidence of impairment as a result of one or more events that occurred and that loss event has an impact on the estimated future cash flows of construction contract that can be reliably estimated, the Company recognizes the amount as 'impairment loss'.

As at June 30, 2018, the uncertainty of estimates in collectability of contract assets (due from customer under construction contracts) has been increased because of contract termination and delay in contract completion that are caused by customers' financial difficulties due to extended global oil price decline.

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3.2.4 Uncertainty of Estimates in Total Contract Revenue regarding Variation in Contract Work

The total contract revenue is measured based on the original contract price from the initially agreed contract, however, the amount of contract revenue may increase or decrease due to a variation, claim, and incentive payment. A variation is included in contract revenue by the Company when it is probable that the customer will approve the variation and the amount of revenue arising from the variation and the amount of revenue can be reliably measured. Such measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future event.

3.2.5 Uncertainty of Estimates in Liquidated Damage regarding Delay of Construction

The liquidated damage arising from delay caused by the Company in completion of contract may cause a decrease in total contract revenue; therefore, the Company estimates the liquidated damage for a project that may delay in completion schedule on a basis of historical experience. As at June 30, 2018, the maximum amount for liquidated damages arising from delays caused by the Company is estimated to be ₩431,634 million. The best estimate of liquidated damages, which arise from delay caused by the Company, that is likely payable by the Company is ₩156,451 million, and the amount is deducted from the contract revenue amount. These amounts would be consistently revalued until completion of construction.

The Company continuously prepares countermeasure acts; such as, claim for extension of construction completion date and gives evidence of the reason that construction completion delay is not caused by the Company to their customers in order to minimize the liquidated damages.

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4. Financial Instruments

4.1 Financial Risk Management

4.1.1 Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, price risk, and interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The purpose of managing financial risk is to identify the potential risk factors that may affect the Company's financial performance and minimize it to the extent that is acceptable. Risk management is carried out by the relevant departments based on the risk management policies approved by the Board of Directors, and the risk management department identifies, assesses and hedges financial risks through close cooperation with other relevant departments. Overall, financial risk management policy of the Company is consistent with that of the prior period.

4.1.2 Risk Managing Activities

4.1.2-1 Market Risk Management

a) Foreign currency risk

The Company undertakes transaction denominated in foreign currencies; consequently, exposures to exchange rate fluctuation arise. Exchange rate exposure are managed within approved policy parameters utilizing forward exchange contracts. The following details the forward foreign currency contracts outstanding as at June 30, 2018 and December 31, 2017.

		June 30, 2018			
<i>(in millions of Korean won, in thousands of foreign currency, except for exchange rate)</i>		Average contracted exchange rate	Sell Amounts	Buy Amounts	Fair value assets (liabilities)
For fair value hedging					
Sell USD	₩	1,088.49	USD 3,076,280	KRW 3,349,604	(17,802)
For trading					
Sell USD		1,160.50	USD 296,000	KRW 331,440	1,946
Total			USD 3,372,280	KRW 3,681,044	(15,856)

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		December 31, 2017				
<i>(in millions of Korean won, in thousands of foreign currency, except for exchange rate)</i>	Average contracted exchange rate	Sell Amounts		Buy Amounts		Fair value assets (liabilities)
For fair value hedging						
Sell USD	₩	1098.39	USD 3,795,811	KRW 4,169,264		127,489
For trading						
Sell USD / Buy EUR		1.33	USD 2,255	EUR 1,700		(238)
Sell USD / Buy GBP		1.45	USD 182	GBP 125		(14)
Sell USD		1,159.63	USD 346,000	KRW 401,233		31,377
			KRW -	KRW 4,570,497		
			USD 4,144,248	USD -		158,614
Total			EUR -	EUR 1,700		
			GBP -	GBP 125		

b) Price risk

The Company's investment in marketable equity securities is made upon management's decision and it does not have specific investment policies for equity securities. As at June 30, 2018, the Company has marketable equity securities that are classified as financial assets that are measured at fair value through other comprehensive income in the separate financial position, and when the price of the marketable equity securities increase (decrease) by 10%, the effect to other comprehensive income will be increased (decreased) by ₩ 376 million (2017: ₩ 367 million) before considering tax.

c) Interest risk

The interest rate risk mainly arises through floating borrowings. The interest rate risk is managed through the interest rate swap contract if the interest rate risk hedging is required.

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4.1.2-2 Credit Risk Management

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and derivative financial instruments, as well as credit exposures to customers, including outstanding receivables and committed transactions. For financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated taking into account its financial position, past experience and other factors.

The maximum exposure to credit risk of financial assets that are measured at amortized cost (Note 8) and derivatives is represented by the carrying amount, and for financial guarantee liabilities, it is represented by the maximum amount to be paid at the debtor's request, which amounts to ₩ 181,817 million (2017: ₩ 298,002 million) (Notes 16 and 36).

The Company reviews the book amount of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. The Company recognizes the difference between the book amount and recoverable amount as impairment loss.

4.1.2-3 Liquidity Risk Management

The Company manages liquidity risk by maintaining sufficient cash and marketable securities, the availability of funding through an adequate level of committed credit facilities and the ability to close out market position. Due to the dynamic nature of the underlying business, the Company maintains flexibility in funding by maintaining availability under committed credit lines.

4.2 Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Meanwhile, the Company's general strategy of capital risk management is consistently applied with that of previous year.

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4.3 Financial Instruments Measured at Fair Value

4.3.1 Fair value hierarchy classifications of the financial instruments that are measured at fair value in the separate statements of financial position as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Derivative held for trading	₩ -	₩ 7,810	₩ -	₩ 7,810
Equity investments	-	16,592	-	16,592
Derivative financial assets				
Derivative instrument for hedging	-	27,734	-	27,734
Financial assets at fair value through other comprehensive income				
Listed securities	8	-	-	8
Beneficiary certificates	3,752	-	-	3,752
Non-listed securities	-	9,768	16,045	25,813
	<u>₩ 3,760</u>	<u>₩ 61,904</u>	<u>₩ 16,045</u>	<u>₩ 81,709</u>

Financial liabilities

Financial liabilities at fair value through profit or loss

Derivative held for trading	₩ -	₩ 5,864	₩ -	₩ 5,864
Derivative financial liabilities				
Derivative instrument for hedging	-	45,535	-	45,535
	<u>₩ -</u>	<u>₩ 51,399</u>	<u>₩ -</u>	<u>₩ 51,399</u>

(in millions of Korean won)

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Derivative held for trading	₩ -	₩ 31,377	₩ -	₩ 31,377
Derivative financial assets				

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Derivative instrument for hedging	-	137,775	-	137,775
Available-for-sale financial assets				
Listed securities	8	-	-	8
Beneficiary certificates	3,663	-	-	3,663
Non-listed securities	-	6,296	20,872	27,168
	<u>₩ 3,671</u>	<u>₩ 175,448</u>	<u>₩ 20,872</u>	<u>₩ 199,991</u>

Financial liabilities

Financial liabilities at fair value through profit or loss

Derivative held for trading	₩	-	₩	252	₩	-	₩	252
Financial liabilities designated at fair value through profit or loss		-		51,252		-		51,252
Derivative financial liabilities								
Derivative instrument for hedging		-		10,286		-		10,286
	<u>₩</u>	<u>-</u>	<u>₩</u>	<u>61,790</u>	<u>₩</u>	<u>-</u>	<u>₩</u>	<u>61,790</u>

4.3.2 Transfers Between Fair Value Hierarchy Levels of Recurring Fair Value Measurements

The Company's policy is to recognize transfers between levels of the fair value at the date of the event or change in circumstances that caused the transfer.

Details of transfers between levels of each fair value hierarchy of financial instruments are as follows:

There were no transfers between levels 1 and 2 for recurring fair value measurements during the six-month period ended June 30, 2018.

Changes in level 3 for recurring fair value measurements for the six-month period ended June 30, 2018 and for the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>		
		Six-month period ended June 30, 2018
Financial assets at fair value through other comprehensive income: Non-listed securities		
Beginning balance	₩	20,872
Purchases (Disposals)		(6,181)
Valuation		1,354
Transfer		-
Ending balance	<u>₩</u>	<u>16,045</u>

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(in millions of Korean won)

Year ended
December 31, 2017

Available-for-sale financial assets: Non-listed securities	
Beginning balance	₩ 14,707
Purchases (Disposals)	-
Valuation	16
Transfer ¹	6,149
Ending balance	<u>₩ 20,872</u>

¹ As non-listed securities changed valuation methods from cost methods to fair value measurement, amount had been transferred to Level 3 during the prior year.

5. Financial Instruments by Category

5.1 Financial Assets

Categorizations of financial assets as at June 30, 2018 and December 31, 2017, are as follows

(in millions of
Korean won)

	June 30, 2018					
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortized costs	Derivative financial assets for hedging	Total (Carrying amount)	Fair value
Cash and cash equivalents	₩ -	₩ -	₩ 325,133	₩ -	₩ 325,133	₩ 325,133
Short- and long-term financial assets	-	-	443,467	-	443,467	443,467
Financial assets at fair value through profit or loss ¹	24,403	-	-	-	24,403	24,403
Held-to-maturity financial assets	-	-	330	-	330	330
Financial assets at fair value through other comprehensive income	-	29,573	-	-	29,573	29,573
Trade and other receivables	-	-	530,138	-	530,138	530,138
Contract assets	-	-	3,817,556	-	3,817,556	3,817,556
Currency forward assets	-	-	-	27,734	27,734	27,734
	<u>₩ 24,403</u>	<u>₩ 29,573</u>	<u>₩ 5,116,624</u>	<u>₩ 27,734</u>	<u>₩ 5,198,334</u>	<u>₩ 5,198,334</u>

¹ Financial assets at fair value through profit or loss consist of currency forward assets held for trading and equity investments.

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(in millions of Korean won)	December 31, 2017						
	Loans and receivables	Financial assets at fair value through profit or loss	Held-to- maturity financial assets	Available-for-sa le financial assets	Derivative financial assets for hedging	Total (Carrying amount)	Fair value
Cash and cash equivalents	₩ 160,139	₩ -	₩ -	₩ -	₩ -	₩ 160,139	₩ 160,139
Short- and long-term financial assets	496,528	-	-	-	-	496,528	496,528
Financial assets at fair value through profit or loss ¹	-	31,377	-	-	-	31,377	31,377
Held-to-maturity financial assets	-	-	331	-	-	331	331
Available-for-sale financial assets	-	-	-	52,085	-	52,085	52,085
Trade and other receivables	574,047	-	-	-	-	574,047	574,047
Due from customers for contract work, net	4,046,598	-	-	-	-	4,046,598	4,046,598
Currency forward assets	-	-	-	-	137,775	137,775	137,775
	<u>₩ 5,277,312</u>	<u>₩ 31,377</u>	<u>₩ 331</u>	<u>₩ 52,085</u>	<u>₩ 137,775</u>	<u>₩ 5,498,880</u>	<u>₩ 5,498,880</u>

¹ Financial assets at fair value through profit or loss consist of currency forward assets held for trading.

Meanwhile, the amounts of financial assets by category in above tables are sum of current and non-current assets, net of provision for impairment.

5.2 Financial liabilities

Categorizations of financial liabilities as at June 30, 2018 and December 31, 2017, are as follows

(in millions of Korean won)	June 30, 2018				
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized costs	Derivative financial liabilities for hedging	Total (Carrying amount)	Fair value
Borrowings	₩ -	₩ 2,754,352	₩ -	₩ 2,754,352	₩ 2,752,868
Debentures	-	550,932	-	550,932	544,797
Financial liabilities at fair value through profit or loss ¹	5,864	-	-	5,864	5,864
Trade and other payables	-	906,136	-	906,136	906,136
Currency forward liabilities ¹	-	-	45,535	45,535	45,535
Financial guarantee liabilities ²	-	1,515	-	1,515	1,515
	<u>₩ 5,864</u>	<u>₩ 4,212,935</u>	<u>₩ 45,535</u>	<u>₩ 4,264,334</u>	<u>₩ 4,256,715</u>

¹ Financial liabilities at fair value through profit or loss consist of currency forward liabilities held for trading.

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² As described in Notes 16 and 36, the Company recognized expected payment guarantees amount, based on the agreement provided to the related parties as financial guarantee liabilities.

(in millions of Korean won)	December 31, 2017									
	Financial liabilities at fair value through profit or loss		Other financial liabilities		Derivative financial liabilities for hedging		Total (Carrying amount)		Fair value	
Borrowings	₩	-	₩	3,024,874	₩	-	₩	3,024,874	₩	3,014,897
Debentures		-		530,661		-		530,661		520,664
Financial liabilities at fair value through profit or loss ¹		51,504		-		-		51,504		51,504
Trade and other payables		-		1,194,760		-		1,194,760		1,194,760
Currency forward liabilities ¹		-		-		10,286		10,286		10,286
Financial guarantee liabilities ²		-		31,737		-		31,737		31,737
	₩	51,504	₩	4,782,032	₩	10,286	₩	4,843,822	₩	4,823,848

¹ Financial liabilities at fair value through profit or loss consist of currency forward liabilities held for trading and financial liabilities designated at fair value through profit or loss. Currency forward liabilities that are effective as a hedging instrument are classified as a derivative financial liabilities for hedging.

² As described in Notes 16 and 36, the Company recognized expected payment guarantees amount, based on the agreement provided to the related parties as financial guarantee liabilities.

Meanwhile, the amounts of financial liabilities by category in above tables are sum of current and non-current liabilities.

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5.3 Net Gains or Losses by Category of Financial Instruments

Net gains or net losses on each category of financial instruments for the six-month periods ended June 30, 2018 and 2017, are as follows:

(in millions of Korean won)

June 30, 2018

Financial assets at fair value through profit or loss

Losses on valuation of foreign exchange forward contracts, net	₩	(4,373)
Gains on foreign exchange forward transaction, net		1,281
Losses on valuation of financial assets at fair value through profit or loss		(2,111)

**Financial assets at fair value through
other comprehensive income**

Dividend income		7,106
Losses on valuation of financial assets at fair value through other comprehensive income		(4,029)

Financial assets at amortized costs

Interest income		16,044
Reversal of impairment loss		85,804
Gains on foreign currency translation, net		94,007
Gains on foreign currency transaction, net		17,353

Derivative financial assets for hedging

Losses on valuation of foreign exchange forward contracts, net		(31,938)
Losses on foreign exchange forward transaction, net		(1,222)

Financial liabilities at fair value through profit or loss

Losses on valuation of foreign exchange forward contracts, net		(5,864)
Losses on foreign exchange forward transaction, net		(5,575)
Gains on valuation of financial liabilities at fair value through profit or loss		776

Financial liabilities at amortized costs

Interest expenses		(79,006)
Losses on foreign currency translation, net		(84,256)
Gains on foreign currency transaction, net		2,636
Reversal of financial guarantee liabilities		30,222
Gains on debt restructuring		10

Derivative financial liabilities for hedging

Losses on valuation of foreign exchange forward contracts, net		(66,855)
Losses on foreign exchange forward transaction, net		(2,505)

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(in millions of Korean won)

June 30, 2017

Loans and receivables

Interest income	₩ 8,803
Impairment loss	(235,210)
Losses on foreign currency translation, net	(186,200)
Losses on foreign currency transaction, net	(65,362)

Financial assets at fair value through profit or loss

Gains on valuation of foreign exchange forward contracts, net	11,840
Gains on foreign exchange forward transaction, net	10,143

Held-to-maturity financial assets

Interest income	4
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Available-for-sale financial assets

Dividend income	476
Gains on valuation of available-for-sale financial assets (other comprehensive income)	1,322
Gains on disposal of available-for-sale financial assets	1,038

Derivative financial assets for hedging

Gains on valuation of foreign exchange forward contracts, net	40,511
Gains on foreign exchange forward transaction, net	26,525

Financial liabilities at fair value through profit or loss

Gains on valuation of foreign exchange forward contracts, net	1,034
Gains on foreign exchange forward transaction, net	1,056

Other financial liabilities

Interest expenses	(91,147)
Gains on foreign currency translation, net	99,241
Gains on foreign currencies transaction, net	107,151
Reversal of financial guarantee liabilities	27,142
Gains on debt restructuring	1,370,748
Capitalized financial expenses	(81,452)

Derivative financial liabilities for hedging

Gains on valuation of foreign exchange forward contracts, net	166,903
Gains on foreign exchange forward transaction, net	57,997

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6. Cash and Cash Equivalents

The cash and cash equivalents in the separate statement of cash flows are the same as the cash and cash equivalents in the separate statement of financial position. Details of cash and cash equivalents as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018		December 31, 2017	
Financial institution deposits	₩	325,133	₩	160,139

7. Restricted or Pledged Financial Assets

The restricted or pledged financial assets as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018		December 31, 2017		Description
Short-term financial asset	₩	51,965	₩	82,504	Pledged as collaterals for performance guarantee and others
Long-term financial asset		391,502		414,024	Pledged as collaterals for performance guarantee and others
	₩	<u>443,467</u>	₩	<u>496,528</u>	

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8. Financial Assets

As explained in Note 2, the Company has applied Korean IFRS 1109 *Financial Instruments* from January 1, 2018. See Note 44 for the impact of the changes in accounting policies on the classification of financial assets and financial statements.

8.1 Financial Assets at Fair Value through Profit or Loss

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

Financial assets mandatorily measured at fair value through profit or loss include the following classes of financial assets:

<i>(in millions of Korean won)</i>	June 30, 2018	December 31, 2017
Current		
Currency forward assets held for trading ¹	7,810	-
Non-current		
Equity investments ²	16,592	-
	<u>₩ 24,402</u>	<u>₩ -</u>

¹ Classified as financial assets at fair value through profit or loss in prior year. (2017: ₩ 31,377 million)

² Classified as available-for-sale financial assets in prior year. (2017: ₩ 12,454 million)

(b) Amounts recognized in profit or loss

<i>(in millions of Korean won)</i>	Six-month period ended June 30,	
	2018	2017
Losses on currency forward assets held for trading, net	₩ (3,092)	₩ -
Losses on valuation of financial assets at fair value through profit or loss	(2,111)	-

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8.2 Financial Assets at Fair Value through Other Comprehensive Income

(a) Equity investments at fair value through other comprehensive income

Equity investments at fair value through other comprehensive income comprise the following individual investments:

<i>(in millions of Korean won)</i>	June 30, 2018	December 31, 2017
Non-current		
Listed securities ¹	₩ 8	₩ -
Beneficiary certificates ¹	3,752	-
Non-listed securities ¹	25,813	-
	<u>₩ 29,573</u>	<u>₩ -</u>

¹ Amount classified as available-for-sale financial assets in prior year was ₩ 39,631 million.

Upon disposal of these equity investments, any balance within the accumulated other comprehensive income for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss.

8.3 Held-to-maturity Financial Assets

(a) Held-to-maturity financial assets

Details of held-to-maturity financial assets as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Government and public bonds	₩ 6	₩ 324	₩ 27	₩ 304

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(b) Movements in held-to-maturity financial assets

Movements in held-to-maturity financial assets for the six-month period ended June 30, 2018 and for the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	Six-month period ended June 30, 2018		Year ended December 31, 2017	
	Current	Non-current	Current	Non-current
Beginning balance	₩ 27	₩ 304	₩ 7	₩ 331
Purchases	-	20	-	-
Disposals	(21)	-	(7)	-
Transfer	-	-	27	(27)
Ending balance	₩ 6	₩ 324	₩ 27	₩ 304

8.4 Trade Receivables and Other Financial Assets at Amortized Cost

(a) Trade receivables and provision for impairment

Trade receivables and its provisions for impairment as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Receivables from construction contracts	₩ 445,866	₩ 968,587	₩ 539,584	₩ 978,285
Less: Provision for impairment	(130,458)	(949,123)	(137,095)	(947,540)
Receivables from construction contracts, net	₩ 315,408	₩ 19,464	₩ 402,489	₩ 30,745

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(b) Expected credit losses for trade receivables

To measure the expected credit losses, Company applied the simplified approach based on past credit risk characteristics of trade receivables. The provisions for impairment as at June 30, 2018, are as follows:

(in millions of Korean won)

	June 30, 2018				
	Less than 30 days past due and within due	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate	0.09%	0.00%	13,99%	92.02%	
Gross carrying amount	₩ 198,257	₩ 35,144	₩ 9,488	₩ 1,171,564	₩ 1,414,453
Provision for impairment	₩ 177	₩ -	₩ 1,328	₩ 1,078,076	₩ 1,079,581

(c) Other financial assets at amortized costs

Other financial assets at amortized costs as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

	June 30, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Loans	₩ 581,497	₩ 176,454	₩ 711,040	₩ 173,098
Less: Provision for impairment	(552,748)	(149,324)	(689,274)	(147,089)
Loans, net	28,749	27,130	21,766	26,009
Other receivable	451,785	148,545	404,509	149,250
Less: Provision for impairment	(385,917)	(85,696)	(385,818)	(85,920)
Other receivable, net	65,868	62,849	18,691	63,330
Accrued income	136,150	55,026	136,147	56,156
Less: Provision for impairment	(135,965)	(55,003)	(135,965)	(56,137)
Accrued income, net	185	23	182	19
Deposits	-	27,536	-	28,692
Less: Provision for impairment	-	(17,076)	-	(17,879)
Deposits, net	-	10,460	-	10,813
	₩ 94,802	₩ 100,462	₩ 40,639	₩ 100,171

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(d) Movements in the provision for impairment of trade and other receivables

Movements in the provision for impairment of trade and other receivables for the six-month period ended June 30, 2018 and for the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	Six-month period ended June 30, 2018					
	Receivables from construction contracts¹	Other financial assets at amortized costs²				Total
	Loans³	Other receivables	Accrued income	Deposits		
Beginning balance - Korean IFRS 1039	₩ 1,084,635	₩ 836,363	₩ 471,737	₩ 192,102	₩ 17,879	₩ 2,602,716
Amounts restated through beginning balance of retained earnings	-	-	-	-	-	-
Loss allowance as at initial application date - calculated under Korean IFRS 1109	1,084,635	836,363	471,737	192,102	17,879	2,602,716
Impairment loss (Reversal)	(4,863)	(20,176)	(888)	-	(51)	(25,978)
Others	(192)	(114,115)	763	(1,134)	(753)	(115,431)
Ending balance	<u>₩ 1,079,580</u>	<u>₩ 702,072</u>	<u>₩ 471,612</u>	<u>₩ 190,968</u>	<u>₩ 17,075</u>	<u>₩ 2,461,307</u>

*(in millions of
Korean won)*

	Year ended December 31, 2017					
	Receivables from construction contracts	Loans	Other receivables	Accrued income	Deposits	Total
Beginning balance	₩ 1,118,699	₩ 793,888	₩ 479,921	₩ 109,595	₩ 17,871	₩ 2,519,974
Impairment loss (Reversal)	67,487	13,440	(3,155)	5,062	8	82,842
Others	(101,551)	29,035	(5,029)	77,444	-	(101)
Ending balance	<u>₩ 1,084,635</u>	<u>₩ 836,363</u>	<u>₩ 471,737</u>	<u>₩ 192,101</u>	<u>₩ 17,879</u>	<u>₩ 2,602,715</u>

¹ The impairment loss of trade receivables was assessed based on the expected credit losses model considering the past credit loss experiences according to changes in IFRS (in prior year: the incurred loss model). The estimated impairment losses on these receivables are presented

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separately in the provision for impairment. The Company considered that there was evidence of impairment if any of the following indicators were present:

- Significant financial difficulties of the debtor
- Probability that the debtor will enter bankruptcy or financial reorganization, and
- Default or delinquency in payments (more than 30 days overdue).

² If these financial assets are considered to have low credit risk, loss allowance provisions are recognized based on 12-month expected credit losses. If credit risk is significantly increasing or credit is considered to be impaired, loss allowance is recognized based on lifetime expected credit losses. Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

³ Following the debt-to-equity swap of loan receivables from Dewind Co., a subsidiary of the Company, of ₩ 114,115 million, the Company sold the entire shares of Dewind Co. (Note 36).

(e) Amounts recognized in profit or loss

The amounts recognized in profit or loss within 'impairment loss' in relation to impaired receivables for the six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	Six-month period ended June 30, 2018					
	Receivables from construction contracts	Other financial assets at amortized costs				Total
	Loans	Other receivables	Accrued income	Deposits		
Impairment loss						
- Movement in loss allowance	₩ 2,106	₩ 2,235	₩ 115	₩ -	₩ -	₩ 4,456
- Reversal of impairment loss recognized in prior periods	(6,969)	(22,411)	(1,003)	-	(51)	(30,434)
	₩ (4,863)	₩ (20,176)	₩ (888)	₩ -	₩ (51)	₩ (25,978)

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		Year ended December 31, 2017										
		Receivables	Other financial assets at amortized costs					Total				
		from		Other	Accrued	Deposits						
<i>(in millions of Korean won)</i>		construction	Loans	receivables	income							
		contracts										
Impairment loss												
- Movement in loss allowance	₩	67,487	₩	13,440	₩	-	₩	5,062	₩	8	₩	85,997
- Reversal of impairment loss recognized in prior periods		-		-		(3,155)		-		-		(3,155)
	₩	67,487	₩	13,440	₩	(3,155)	₩	5,062	₩	8	₩	82,842

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9. Contract Assets and Liabilities

As explained in Note 2, the Company has applied Korean IFRS 1115 *Revenue from Contracts with Customers* from January 1, 2018. See Note 44 for the impact of the changes in accounting policies on the financial statements.

(a) The Company has recognized the following revenue-related contract assets and liabilities:

<i>(in millions of Korean won)</i>	June 30, 2018	December 31, 2017
Due from customers for contract work ¹	₩ 3,749,095	₩ -
Incremental costs of obtaining a contract ²	68,460	-
Total contract assets	<u>₩ 3,817,555</u>	<u>₩ -</u>
Due to customers for contract work ¹	₩ 1,892,474	₩ -
Advance received ³	61	-
Total contract liabilities	<u>₩ 1,892,535</u>	<u>₩ -</u>

¹ The Company did not classify due from customers for contract work amounting to ₩ 4,046,598 million and due to customers for contract work amounting to ₩ 2,378,487 million as contract assets and contract liabilities in 2017.

² The Company separately classified incremental costs of obtaining a contract amounting to ₩ 87,855 million as prepaid expenses in 2017.

³ The Company separately classified advance received amounting to ₩ 2 million as advance received in 2017.

(b) Significant changes in contract assets and liabilities

According to changes in accounting policies, due from customers for contract work, advance payments, due to customers for contract work and advance received associated with revenue from contracts with customer were reclassified to contract assets and contract liabilities. During six-month period ended June 30, 2018, recognition of revenue on construction contracts resulted in changes in contract assets and liabilities (Note 37).

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(c) Revenue recognized in relation to contract liabilities

The following table shows how much of the revenue recognized in the current reporting period relates to contract liability balance at the beginning of the period.

<i>(in millions of Korean won)</i>	June 30, 2018	
Revenue recognized that was included in the contract liability balance at the beginning of the period		
Revenue recognized based on progress towards complete satisfaction	₩	1,272,619

(d) Assets recognized from incremental costs of obtaining a contract

The Company has recognized an asset in relation to broker commission that would not have incurred if the contract has not been obtained. This is presented within contract assets in the statements of financial position.

<i>(in millions of Korean won)</i>	June 30, 2018	
Assets recognized from incremental costs of obtaining a contract as at June 30	₩	68,461
Amortization and impairment loss recognized as cost during the period		64,208

The Company recognized an asset in relation to paid broker commission in order to obtain a contract. The asset is amortized over the progress towards completion of the specific contract it relates to, consistent with the pattern of recognition of the associated revenue. Management does not expect the capitalized costs to be completely recovered during the period. An impairment loss of ₩ 32,797 million has, therefore, been recognized for the excess of the expected remaining consideration over any directly related costs not yet recognized as expense.

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10. Inventories

Details of inventories as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018			December 31, 2017		
	Acquisition cost	Valuation allowance	Carrying amount	Acquisition cost	Valuation allowance	Carrying amount
Work in process ¹	₩ 1,002,762	₩ (216,155)	₩ 786,607	₩ 488,668	₩ (215,515)	₩ 273,153
Raw materials	431,921	(49,961)	381,960	325,500	(49,296)	276,204
Supplies	14,008	-	14,008	12,036	-	12,036
Goods in transit	201,015	-	201,015	162,785	-	162,785
	<u>₩ 1,649,706</u>	<u>₩ (266,116)</u>	<u>₩ 1,383,590</u>	<u>₩ 988,989</u>	<u>₩ (264,811)</u>	<u>724,178</u>

¹ During the period, contracts of two ships under construction were terminated due to bankruptcy of one of customers, Seadrill. The Company has classified the due from customers for contract work amounting to ₩ 495,745 million as work-in-process.

Inventories are stated in the separate statement of financial position at the lower of cost or net realizable value in case that the market value is lower than the acquisition cost.

In subsequent periods, if the market value of an impaired inventory recovers, the Company reverses the valuation loss up to the initially booked amount.

11. Other Assets

Details of other assets as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Advance payments	₩ 536,981	₩ -	₩ 799,214	₩ -
Prepaid construction costs	2,271	-	2,243	-
Prepaid expenses	26,649	3,323	128,451	3,841
Others	20,935	5,794	32,716	5,794
	<u>₩ 586,836</u>	<u>₩ 9,117</u>	<u>₩ 962,624</u>	<u>₩ 9,635</u>

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12. Non-current Assets Held-for-sale

As described in Note 42, the Company entered into an agreement with major creditor bank to stabilize the Company's financial position including disposal plan of the Company's property, plant and equipment as physical self-help plan. The Company classified the assets that are expected to meet the terms of sale within one year as a non-current assets held for sale.

Details of assets of disposal group classified as held for sale as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018		December 31, 2017	
Land	₩	2,862	₩	1,339
Buildings		-		847
Construction-in-progress		-		38,295
Investments in subsidiaries ¹		-		-
	₩	<u>2,862</u>	₩	<u>40,481</u>

¹ Investments in subsidiaries consist of investments in DW Mangalia Heavy Industries S.A. and PT. DSME ENR CEPU, as at June 30, 2018. Meanwhile, the sale of shares of Dewind Co., classified as non-current assets held for sale as at December 31, 2017, has been completed during the six-month period ended June 30, 2018.

The Company measured non-current asset classified as held for sale at the lower of its book amount and fair value less costs to sell. There is no related profit and loss recognized as at June 30, 2018, as the book amount exceeds the fair value less cost to sell.

13. Investments in Subsidiaries

13.1 Details of the investments in subsidiaries of the Company as at June 30, 2018, and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	Location	Main business	Ownership interest (%)		Book value	
			June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
DW Mangalia Heavy Industries S.A. ^{1, 2}	Romania	Shipbuilding	-	51.00	-	-
DSME Shandong Co., Ltd	China	Manufacturing ship parts	100.00	100.00	22,807	22,807
DeWind Co. ³	USA	Developing wind power	-	100.00	-	-
DK Maritime S.A	Panama	Shipping	100.00	100.00	-	-
DSME Oman LLC	Oman	Development of real estate and related business activities	70.00	70.00	-	-
DSME Far East LLC	Russia	Ship building	100.00	100.00	1	1
PT.DSME ENR CEPU ²	Indonesia	Investments in mining	-	85.00	-	-

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DSME Information and Consulting	Geoje	IT service	100.00	100.00	200	200
					₩ 23,008	₩ 23,008

¹ As the Board of Directors of the Company resolved to sell DW Mangalia Heavy Industries S.A., its subsidiary on November 10, 2017, the Company entered into sales contract with DAMEN. 2 MAI MANGALIA SHIPYARD, an investment company of Romanian government, informed not to exercise its preemption right and, as a result, the Company completed the sale of stake with DAMEN on July 21, 2018 (Note 45).

² The Company classified investments in DW Mangalia Heavy Industries S.A. and PT. DSME ENR CEPU as non-current assets held for sale during six-month period ended June 30, 2018 (Note 12).

³ The sale of Dewind Co. has been complete during six-month period ended June 30, 2018. Therefore, DeWind Co. has been excluded from the scope of consolidation.

13.2 Changes in the book value of investment in subsidiaries for the six-month period ended June 30, 2018 and for the year ended December 31, 2017, are as follows:

(in millions of Korean won)

Subsidiaries	Six-month period ended June 30, 2018			
	Beginning balance	Acquisition (Disposal)	Others	Ending balance
DSME Shandong Co., Ltd	₩ 22,806	₩ -	₩ -	₩ 22,806
DSME Far East LLC	1	-	-	1
DSME Information and Consulting	200	-	-	200
	₩ 23,007	₩ -	₩ -	₩ 23,007

(in millions of Korean won)

Subsidiaries	Year ended December 31, 2017			
	Beginning balance	Acquisition (Disposal)	Others	Ending balance
Welliv Corp.	₩ 20,744	₩ (20,744)	₩ -	₩ -
DSME Construction Co., Ltd	2,250	(2,250)	-	-
DSME Shandong Co., Ltd ¹	89,017	-	(66,211)	22,806
DSME Far East LLC	1	-	-	1
DSME Information and Consulting	-	200	-	200
	₩ 112,012	₩ (22,794)	₩ (66,211)	₩ 23,007

¹ As described in Note 42, the Company's investments in subsidiaries, which are deemed to be impaired due to a decrease in the volume and market conditions of the Company due to operating and financial difficulties, the Company recognized an impairment loss of ₩66,211 million on certain investments in subsidiaries.

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14. Investments in Associates and Joint Ventures

14.1 Details of investments in associates and joint ventures as at June 30, 2018 and December 31, 2017 are as follows:

(in millions of Korean won)

	Location	Main business	June 30, 2018		December 31, 2017	
			Ownership interest (%)	Book value	Ownership interest (%)	Book value
Associates						
Wing Ship Technology Corp.	Daejeon	Research and Development on other engineering	23.20	-	23.20	-
TPI Megaline Co.,Ltd.	Seoul	Shipping	19.00	2,185	19.00	2,185
Daehan Shipping Co., Ltd.	Haenam	Shipbuilding	23.35	-	23.35	-
Welliv Private Investment Joint Company ¹	Geoje	Holding Company	34.39	9,750	34.39	9,750
Shinhan Heavy Industries Co., Ltd.	Ulsan	Manufacturing ship parts	89.22	-	89.22	-
Samwoo Heavy Industry Co., Ltd.	Gwangyang	Manufacturing ship parts	100.00	-	100.00	-
Joint ventures						
SBM Shipyard Ltd.	Angola	Holding Company	33.33	-	33.33	-
				<u>₩ 11,935</u>		<u>₩ 11,935</u>

¹ The Company sold 1,200,000 of its ordinary shares (100%) to Welliv Holdings, and some of the proceeds were received as a 34.39 % stake in the Welliv Private Investment Joint Company, an investor of Welliv Holdings. As a senior partner of the invested company, the Company may receive a distribution equivalent to 2% of the contribution paid annually. Out of cumulative distribution of the limited partnership, the Company has a priority to receive the sum of the contribution paid and the amount equivalent to internal rate of return of 6% annum when the remaining assets are distributed.

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14.2 Changes in the book amount of the investments in associates and joint ventures for the six-month period ended June 30, 2018 and for the year ended December 31, 2017, are as follows:

(in millions of Korean won)

	Six-month period ended June 30, 2018			
	Beginning balance	Acquisition (Disposal)	Others	Ending balance
Associates				
TPI Megaline Co.,Ltd.	₩ 2,185	₩ -	₩ -	₩ 2,185
Welliv Private Investment Joint Company	9,750	-	-	9,750
	<u>₩ 11,935</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 11,935</u>

(in millions of Korean won)

	Year ended December 31, 2017			
	Beginning balance	Acquisition (Disposal)	Others	Ending balance
Associates				
Korea Marine Finance Corp.	₩ 3,748	₩ (3,748)	₩ -	₩ -
TPI Megaline Co.,Ltd.	2,185	-	-	2,185
Welliv Private Investment Joint Company	-	9,750	-	9,750
	<u>₩ 5,933</u>	<u>₩ 6,002</u>	<u>₩ -</u>	<u>₩ 11,935</u>

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15. Property, Plant and Equipment

Details of property, plant and equipment as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018					
	Acquisition cost	Revaluation surplus	Government grants	Accumulated depreciation	Accumulated impairment losses	Book amount
Land	₩ 1,485,679	₩ 461,985	₩ -	₩ -	₩ (94,342)	₩ 1,853,322
Buildings	1,032,399	-	(5,436)	(387,845)	(80,549)	558,569
Structures	1,272,279	-	-	(426,219)	(80,179)	765,881
Machinery	908,652	-	(100)	(586,987)	(155,317)	166,248
Vehicle	170,759	-	-	(131,135)	(30,969)	8,655
Ships and aircraft	207,369	-	-	(108,361)	(14,012)	84,996
Finance lease ships and aircrafts	39,698	-	-	(7,939)	-	31,759
Tools	334,084	-	(1)	(216,494)	(102,570)	15,019
Supplies	232,099	-	(75)	(162,094)	(47,068)	22,862
Construction-in-progress	244,739	-	-	-	(15,640)	229,099
	<u>₩ 5,927,757</u>	<u>₩ 461,985</u>	<u>₩ (5,612)</u>	<u>₩ (2,027,074)</u>	<u>₩ (620,646)</u>	<u>₩ 3,736,410</u>

<i>(in millions of Korean won)</i>	December 31, 2017					
	Acquisition cost	Revaluation surplus	Government grants	Accumulated depreciation	Accumulated impairment losses	Book amount
Land	₩ 1,484,825	₩ 461,985	₩ -	₩ -	₩ (92,900)	₩ 1,853,910
Buildings	1,026,040	-	(5,507)	(377,370)	(77,221)	565,942
Structures	1,271,915	-	-	(410,118)	(80,186)	781,611
Machinery	902,865	-	(106)	(578,679)	(155,431)	168,649
Vehicle	169,425	-	-	(131,293)	(30,970)	7,162
Ships and aircraft	247,802	-	-	(106,883)	(14,012)	126,907
Tools	330,122	-	(1)	(216,644)	(102,690)	10,787
Supplies	224,236	-	(89)	(161,095)	(47,096)	15,956
Construction-in-progress	209,560	-	-	-	(15,640)	193,920
	<u>₩ 5,866,790</u>	<u>₩ 461,985</u>	<u>₩ (5,703)</u>	<u>₩ (1,982,082)</u>	<u>₩ (616,146)</u>	<u>₩ 3,724,844</u>

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Changes in property, plant and equipment for the six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	Six-month period ended June 30, 2018				
	Land	Buildings	Structure	Machinery	Vehicle
At January 1	₩ 1,853,910	₩ 565,943	₩ 781,610	₩ 168,650	₩ 7,162
Acquisition	-	97	104	7,413	2,921
Disposals	-	-	-	-	-
Depreciation	-	(9,532)	(16,101)	(9,847)	(1,428)
Others ¹	(588)	2,061	268	32	-
At June 30	₩ 1,853,322	₩ 558,569	₩ 765,881	₩ 166,248	₩ 8,655

<i>(in millions of Korean won)</i>	Six-month period ended June 30, 2018					
	Ships and aircraft	Finance lease ships and aircraft	Tool	Supplies	Construction -in-progress	Total
At January 1	₩ 126,907	₩ -	₩ 10,788	₩ 15,955	₩ 193,920	₩ 3,724,845
Acquisition	80	-	5,516	8,900	26,763	51,794
Disposals	-	-	(5)	(1)	-	(6)
Depreciation	(3,235)	(7,940)	(2,298)	(2,082)	-	(52,463)
Others ¹	(38,756)	39,699	1,018	90	8,416	12,240
At June 30	₩ 84,996	₩ 31,759	₩ 15,019	₩ 22,862	₩ 229,099	₩ 3,736,410

<i>(in millions of Korean won)</i>	Year ended December 31, 2017				
	Land	Buildings	Structure	Machinery	Vehicle
At January 1	₩ 1,952,766	₩ 658,106	₩ 893,305	₩ 331,308	₩ 43,115
Acquisition	-	20	14	10,427	150
Disposals	(3,686)	(9)	-	(1)	(1)
Depreciation	-	(19,314)	(33,064)	(25,006)	(5,093)
Others ¹	(95,170)	(72,860)	(78,644)	(148,079)	(31,009)
At December 31	₩ 1,853,910	₩ 565,943	₩ 781,611	₩ 168,649	₩ 7,162

<i>(in millions of Korean won)</i>	Year ended December 31, 2017				
	Ships and aircraft	Tool	Supplies	Construction -in-progress	Total
At January 1	₩ 104,558	₩ 108,407	₩ 49,397	₩ 255,147	₩ 4,396,109
Acquisition	4,366	14,141	16,714	21,873	67,705
Disposals	-	(188)	(4)	(2,028)	(5,917)
Depreciation	(6,761)	(8,752)	(10,775)	-	(108,765)
Others ¹	24,744	(102,821)	(39,377)	(81,071)	(624,287)
At December 31	₩ 126,907	₩ 10,787	₩ 15,955	₩ 193,921	₩ 3,724,845

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¹ Others mainly consist of transfer of construction-in-progress to property, plant and equipment, impairment loss, amortization of government grants and other account transfers.

As described in Note 42, the Company measured the amount of impairment loss of the cash generating units that had indication of an impairment due to decrease in the sales volume and deterioration in market condition and the assets planned to be disposed through the business normalization plan. After impairment assessment, the Company recognized total ₩616,622 million of impairment loss on property, plant and equipment, intangible assets and investment properties(including decrease in revaluation surplus of ₩86,305 million) during the last period. The estimated recoverable amount from the impairment assessment is the net fair value of individual asset, which is the estimated value of the sale or potential appraisal with the potential buyer. The appraised value is classified as level 3 fair value measurement and is assessed using public announcement of officially assessed price and sales comparison approach.

16. Pledged Assets

16.1 As at June 30, 2018, the Company's assets except deposits (Note 7) that are pledged as collaterals for performance guarantee and others are summarized as follows:

(in millions of Korean won, in thousands of foreign currency)

Assets	Book amount	Pledged amount	Guarantee for	Borrowings amount	Lender	
Non-current assets held for sale ¹	KRW -	KRW 9,384	Loan guarantee	USD 32,511	KEXIM	
Property, plant and equipment, and Investment properties	KRW 3,430,982	KRW 3,735,200	Borrowings in Local currency Borrowings in Foreign currencies	KRW 607,659	KDB, KEXIM	
		USD 880,000		USD 1,036,685		
Financial assets at fair value through profit or loss	KRW 9,147	KRW 629,983	Performance guarantee	KRW -	KDIA	
		<hr/>		KRW 607,659		
		KRW 3,440,129		KRW 4,374,567		USD 1,069,196
		USD 880,000				

¹ The Company provides non-current assets held for sale as collateral for borrowing of PT. DSME ENR CEPU, a subsidiary of the Company, for KEXIM.

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16.2 Significant guarantees provided to other than the Company's related parties as at June 30, 2018, are as follows:

(in thousands of US dollar)

	Provided for	Guarantee Amount		Lender
Korea Line Corp.		USD	74,579	KDB and others

16.3 The Company is provided performance guarantees such as RG (Refund Guarantee) relating to the export of ships. Details of guarantees provided to the Company are as follows:

(in millions of Korean won, in thousands of foreign currency)

Provided by	Guarantee Limit		Actual warranty balance	
	Currency	Amount	Currency	Amount
KDB	USD	4,700,000	USD	1,994,078
			USD	3,334,103
KEXIM	USD	4,706,544	EUR	9,348
			GBP	-
Other financial institutions	USD	935,807	USD	930,034

In addition to the above, the Company is provided with performance guarantee of ₩1,873,775 million from KDIA and others. Meanwhile, the Company provides a mortgage of transfer on i) export object under construction, ii) raw materials for construction and iii) export payment, relating to performance guarantee provided, borrowing on shipbuilding financing and the new funding support limit provided by the Korea Development Bank and the Korea Export-Import Bank(Note 42).

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17. Investment Properties

17.1 Investment properties as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

	June 30, 2018		
	Land	Buildings	Total
Acquisition cost	₩ 4,661	₩ 8,473	₩ 13,134
Accumulated depreciation	-	(3,927)	(3,927)
Accumulated impairment	-	(1,353)	(1,353)
Book amount	<u>₩ 4,661</u>	<u>₩ 3,193</u>	<u>₩ 7,854</u>

(in millions of Korean won)

	December 31, 2017		
	Land	Buildings	Total
Acquisition cost	₩ 4,661	₩ 8,473	₩ 13,134
Accumulated depreciation	-	(3,867)	(3,867)
Accumulated impairment	-	(1,354)	(1,354)
Book amount	<u>₩ 4,661</u>	<u>₩ 3,252</u>	<u>₩ 7,913</u>

17.2 Changes in the book amounts of investment properties for the six-month period ended June 30, 2018 and for the year ended December 31, 2017, are as follows:

(in millions of Korean won)

	Six-month period ended June 30, 2018		
	Land	Buildings	Total
Beginning balance	₩ 4,661	₩ 3,252	₩ 7,913
Depreciation	-	(59)	(59)
Ending balance	<u>₩ 4,661</u>	<u>₩ 3,193</u>	<u>₩ 7,854</u>

(in millions of Korean won)

	Year ended December 31, 2017		
	Land	Buildings	Total
Beginning balance	₩ 4,661	₩ 4,724	₩ 9,385
Acquisition	-	(118)	(118)
Depreciation	-	(1,354)	(1,354)
Ending balance	<u>₩ 4,661</u>	<u>₩ 3,252</u>	<u>₩ 7,913</u>

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18. Intangible Assets

Intangible assets as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018			December 31, 2017		
	Cost	Accumulated amortization and impairment	Book amount	Cost	Accumulated amortization and impairment	Book amount
	₩ 38,354	₩ (21,951)	₩ 16,403	₩ 31,919	₩ (18,580)	₩ 13,339

Changes in book amounts of intangible assets for the six-month period ended June 30, 2018 and for the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	Six-month period ended June 30, 2018			
	Intellectual property rights	Development costs	Others	Total
Beginning balance	₩ 1,178	₩ 11,389	₩ 771	₩ 13,338
Additions	1,552	1,817	9	3,378
Amortization	(202)	(112)	-	(314)
Ending balance	₩ 2,528	₩ 13,094	₩ 780	₩ 16,402

<i>(in millions of Korean won)</i>	Year ended December 31, 2017				
	Intellectual property rights	Development costs	Facility usage rights	Others	Total
Beginning balance	₩ 9,755	₩ 26,213	₩ 431	₩ 622	₩ 37,021
Additions	2,229	5,171	-	-	7,400
Amortization	(576)	(1,281)	(50)	-	(1,907)
Impairment loss ¹	(10,230)	(18,715)	(381)	149	(29,177)
Ending balance	₩ 1,178	₩ 11,388	₩ -	₩ 771	₩ 13,337

¹ During the last period, the Company recognized ₩ 29,177 million of impairment loss by impairment test (Note 15).

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19. Trade and Other Payables

Trade and other payables as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Trade payables	₩ 610,731	₩ -	₩ 732,570	₩ -
Accounts payable	125,704	90,281	237,265	114,125
Accrued expenses	61,847	-	98,470	-
Deposits received	17,573	-	12,330	-
	<u>₩ 815,855</u>	<u>₩ 90,281</u>	<u>₩ 1,080,635</u>	<u>₩ 114,125</u>

20. Debentures

Details of the book amount of debentures as at June 30, 2018 and December 31, 2017, are as follows:

Type	Maturity date	Annual interest rate (%) June 30, 2018	June 30, 2018	December 31, 2017
6-1 st non-guarantee bonds	April 21, 2023	1.00	₩ 213,113	₩ 213,274
4-2 nd non-guarantee bonds	April 21, 2023	1.00	149,102	149,142
5-2 nd non-guarantee bonds	April 21, 2023	1.00	98,635	98,635
6-2 nd non-guarantee bonds	April 21, 2023	1.00	29,316	29,321
7 th non-guarantee bonds	April 21, 2023	1.00	148,768	148,768
Commercial papers	April 21, 2023	1.00	<u>101,894</u>	<u>101,894</u>
			740,828	741,034
	Less: discount on debentures		(189,896)	(210,373)
	Less: current portion		-	-
			<u>₩ 550,932</u>	<u>₩ 530,661</u>

As described in Note 43, in April 2017, the Company and the bond holders agreed on debt restructuring of issued corporate bonds and CPs which was concluded through bond holder's meeting and amendment of CP contracts, respectively. The debt restructuring of corporate bonds includes debt-to-equity swap of 50% or more of issued bonds, extension of maturity of remaining bonds, and decrease in interest rate of remaining bonds. Regarding the CPs, debt restructuring includes debt-to-equity swap of 50% of CP's held by individuals, extension of maturity of remaining CPs, and split issuance. In accordance with this debt restructuring plan debt-to-equity swap of corporate bonds and CP is planned to be executed on August 12, 2017, December 22, 2017 and March 15, 2018.

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21. Borrowings

21.1 Short-term borrowings

Details of the book amount of short-term borrowings as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won, in thousands of foreign currency)

Denominated currency	Creditor	Annual interest rate (%) June 30, 2018	June 30, 2018		December 31, 2017	
			Foreign currency	Korean equivalents	Foreign currency	Korean equivalents
Short-term borrowings in Korean won	Kookmin Bank	-	- ₩	1,815	- ₩	4,302
	KDB	3.00	-	607,659	-	827,659
	KEXIM	3.00	-	367,900	-	587,900
			-	977,374	- ₩	1,419,861
Short-term borrowings in foreign currencies	KDB and others	6ML+0.3 and other	USD 454,995	510,369	USD 376,211 EUR 59	403,147
	KEXIM	3ML +2.65	USD 119,169	133,672	USD 119,169	127,678
			USD 574,164	₩ 644,041	USD 495,380 EUR 59	₩ 530,825
			USD 574,164	₩ 1,621,415	USD 495,380 EUR 59	₩ 1,950,686

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21.2 Long-term borrowings

Details of the book amount of long-term borrowings as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won, in thousands of foreign currency)

Denominated currency	Creditor	Annual interest rate (%) June 30, 2018	June 30, 2018		December 31, 2017	
			Foreign currency	Korean equivalents	Foreign currency	Korean equivalents
	Korea Housing Guarantee	-	- ₩	109	- ₩	112
Long-term borrowings in Korean won	Kookmin Bank	1.00	-	20,000	-	20,000
	KEB Hana Bank	1.00	-	91,912	-	91,912
	Woori Bank	1.00	-	19,972	-	19,972
	Shinhan Bank	1.00	-	<u>16,000</u>	-	<u>16,000</u>
			₩	<u>147,993</u>	₩	<u>147,996</u>
	KDB	3M Libor+2.55 and others	USD 730,000	₩ 818,841	USD 730,000	₩ 782,122
	Korea National Oil Corp.	-	USD 11,712	12,967	USD 11,712	12,967
Long-term borrowings in foreign currency		6M Libor+3.05 and others	USD 15,750	17,667	USD 15,750	16,875
	KEXIM	3M Libor+2.65 and others	USD 160,493	180,025	USD 160,493	171,952
		1.00	USD 11,273	12,644	-	-
	Woori Bank	1.00	USD 4,831	5,419	-	-
			<u>USD 934,059</u>	<u>₩ 1,047,563</u>	<u>USD 917,955</u>	<u>₩ 983,916</u>
				₩ 1,195,556		₩ 1,131,912
	Less: Current portion			(197,696)		(435,253)
	Less: discount on loans			(62,619)		(57,724)
			<u>₩</u>	<u>935,241</u>	<u>₩</u>	<u>638,935</u>

The Company's property, plant and equipment are pledged as collaterals in relation to above borrowings (Note 16).

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22. Other Liabilities

Other liabilities as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Advance received	₩ -	₩ 14,423
Income in advance	279	279
Withholdings	151,163	63,452
	<u>₩ 151,442</u>	<u>₩ 78,154</u>

23. Net Defined Benefit Liabilities and Other Long-Term Employee Benefit Liabilities

23.1 As at June 30, 2018 and December 31, 2017, amounts recognized in the separate statement of financial position are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018	December 31, 2017
Present value of defined benefit obligation	₩ 380,233	₩ 388,870
Fair value of plan assets	(235,724)	(252,381)
Net defined benefit liabilities	144,509	136,489
Other long-term employee benefit liabilities	<u>₩ 22,178</u>	<u>₩ 21,903</u>

23.2 Changes in net defined benefit liability and other long-term employee benefit liabilities for the six-month period ended June 30, 2018 and for the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	<u>Six-month period ended June 30, 2018</u>			
	Present value of defined benefit obligations	Plan assets	Other long-term employee benefit liabilities	Total
Beginning of the period	₩ 388,870	₩ (252,381)	₩ 21,903	₩ 158,392
Current service cost	23,783	-	610	24,393
Interest cost (Interest income)	5,522	(3,584)	311	2,249
	<u>418,175</u>	<u>(255,965)</u>	<u>22,824</u>	<u>185,034</u>
Remeasurements:				
Return on plan assets	-	2,203	-	2,203
	-	2,203	-	2,203
Benefits paid	(37,942)	18,038	(646)	(20,550)
Ending balance	<u>₩ 380,233</u>	<u>₩ (235,724)</u>	<u>₩ 22,178</u>	<u>₩ 166,687</u>

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<i>(in millions of Korean won)</i>	Year ended December 31, 2017			
	Present value of defined benefit obligations	Plan assets	Other long-term employee benefit liabilities	Total
Beginning of the year	₩ 397,046	₩ (249,649)	₩ 24,646	₩ 172,043
Current service cost	51,399	-	1,476	52,875
Past service cost	(586)	-	-	(586)
Interest cost (Interest income)	10,342	(6,233)	603	4,712
	<u>458,201</u>	<u>(255,882)</u>	<u>26,725</u>	<u>229,044</u>
Remeasurements:				
Return on plan assets	-	3,664	-	3,664
Actuarial gain from change in demographic assumptions	9	-	(1,340)	(1,331)
Actuarial gains arising from changes in financial assumptions	(10,141)	-	(507)	(10,648)
Actuarial gains arising from experience adjustments and others	4,326	-	(369)	3,957
	<u>(5,806)</u>	<u>3,664</u>	<u>(2,216)</u>	<u>(4,358)</u>
Contributions	-	(36,213)	-	(36,213)
Benefits paid	(63,525)	36,050	(2,606)	(30,081)
Ending balance	<u>₩ 388,870</u>	<u>₩ (252,381)</u>	<u>₩ 21,903</u>	<u>₩ 158,392</u>

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24. Provisions

Changes in provisions for construction warranties and other provisions for the six-month period ended June 30, 2018 and for the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	Six-month period ended June 30, 2018			
	Current	Non-current		Total
	Provision for Construction Losses	Provision for construction warranties	Other provisions	
Beginning balance	₩ -	₩ 153,918	₩ 523,515	₩ 677,433
Effect of changes in accounting policies	457,691	-	-	457,691
Adjusted amount	457,691	153,918	523,515	1,135,124
Additional provisions (Reversal provisions)	(60,517)	11,931	(71,198)	(119,784)
Used during period	-	(4,688)	105	(4,583)
Ending balance	₩ 397,174	₩ 161,161	₩ 452,422	₩ 1,010,757

<i>(in millions of Korean won)</i>	Year ended December 31, 2017		
	Non-current		Total
	Provision for construction warranties	Other provisions	
Beginning balance	₩ 128,436	₩ 201,431	₩ 329,867
Additional provisions	41,991	394,193	436,184
Used during period	(16,509)	(72,109)	(88,618)
Ending balance	₩ 153,918	₩ 523,515	₩ 677,433

25. Income Taxes Expense

Income tax expense is recognized based on management's best estimate of weighted average annual income tax rate expected for the full financial year. As at June 30, 2018, the estimated average annual income tax rate used for the year ending December 31, 2018, is 2.44%. Meanwhile, the Company recognized tax income amounting to ₩ 3,343 million according to the decision of Tax Tribunal during six-month period ended June 30, 2018.

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26. Derivative Instruments

Details of derivative instruments held for hedging and trading purposes as at June 30, 2018, and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018						
	Sales	Other non-operating income (expense)	Firm commitment assets ¹	Firm Commitment Liabilities ¹	Contract Liabilities	Currency forward assets	Currency forward liabilities
For fair value hedging ¹	₩ (9,502)	₩ (8,908)	₩ 24,003	₩ 23,461	₩ 1,668	₩ 27,734	₩ 45,535
For trading ²	-	(14,531)	-	-	-	7,810	5,864
	₩ (9,502)	₩ (23,439)	₩ 24,003	₩ 23,461	₩ 1,668	₩ 35,544	₩ 51,399

<i>(in millions of Korean won)</i>	December 31, 2017						
	Sales	Other non-operating income (expense)	Firm commitment assets ¹	Firm Commitment Liabilities ¹	Due to customer under construction contract	Currency forward assets	Currency forward liabilities
For fair value hedging ¹	₩ 3,356	₩ (4,296)	₩ 5,907	₩ 93,527	₩ (2,385)	₩ 137,775	₩ 10,286
For trading ²	-	48,275	-	-	-	31,377	252
	₩ 3,356	₩ 43,979	₩ 5,907	₩ 93,527	₩ (2,385)	₩ 169,152	₩ 10,538

¹ The Company has entered into currency forward contracts (Korean won against USD) in order to hedge exchange rate fluctuation risk regarding foreign currency contract about ship and others. In addition, the Company applied fair value hedge accounting to the respective firm commitment as at June 30, 2018, and December 31, 2017.

² The Company recognized currency forward assets and liabilities held for trading purpose as financial assets (liabilities) at fair value through profit or loss.

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27. Capital

On August 23, 2004, the Company retired 1,000,000 shares of treasury share acquired for ₩15,416 million upon the approval at the Board of Directors' meeting. Accordingly, the number of shares issued has been decreased. However, the amount of paid-up capital has not been reduced. As a result, the face value of the Company's issued shares and the ordinary share presented in the separate statement of financial position are not identical as at June 30, 2018 and December 31, 2017.

The Company's total number of authorized shares, issued shares and par value per share are 800,000,000, 107,205,752 (2017: 106,656,288) and ₩5,000, respectively, as at June 30, 2018 and December 31, 2017.

Changes in number of shares and share capital for the six-month period ended June 30, 2018 and the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won, and in number of shares)</i>	Details	Number of shares (unit: shares)	Share capital
January 1, 2017	Beginning balance	65,576,960	332,885
June 29, 2017	Debt to equity swap	19,647,036	98,235
August 12, 2017	Debt to equity swap	19,804,813	99,024
December 21, 2017	Debt to equity swap	1,627,479	8,137
December 31, 2017	Ending balance	106,656,288	538,281
January 1, 2018	Beginning balance	106,656,288	538,281
March 14, 2018	Debt to equity swap	549,464	2,747
June 30, 2018	Ending balance	107,205,752	541,028

28. Retained Earnings (Accumulated Deficits)

Retained earnings (accumulates deficits) as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>		June 30, 2018		December 31, 2017
Legal reserves ¹	₩	81,080	₩	81,080
Reserve for research and human resource development		20,000		70,000
Reserve for facility expansion		3,450,000		3,450,000
Reserve for dividend equalization		70,000		70,000
Accumulated deficits before disposition		(3,433,092)		(4,448,606)
	₩	<u>187,988</u>	₩	<u>(777,526)</u>

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¹ The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit.

29. Other Contributed Capital and Components of Other Capital

29.1 Other contributed capital and components of other capital

Other contributed capital as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018	December 31, 2017
Other contributed capital		
Share premium	₩ 10,437	₩ 341,349
Others ¹	<u>(10,694)</u>	<u>9,810</u>
	<u>(257)</u>	<u>351,159</u>
Components of other capital		
Revaluation surplus of property, plant and equipment	334,939	334,939
Gain on valuation of AFS securities	-	12,387
Loss on valuation of financial assets at fair value through other comprehensive income	<u>(2,376)</u>	<u>-</u>
	<u>₩ 332,563</u>	<u>₩ 347,326</u>

¹ Others include ₩ 726 million of other paid-in-capital, which qualifies as equity even though actual debt-to-equity swap is not completed as the number and price of issuing shares through debt-to-equity swap are fixed.

29.2 Hybrid Capital Instrument

Hybrid capital instrument as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018	December 31, 2017
8th Private unregistered non-guarantee convertible bond ¹	₩ 1,000,000	₩ 1,000,000
9th Private unregistered non-guarantee convertible bond ²	1,284,775	1,284,775
10th Private unregistered non-guarantee convertible bond ³	<u>48,057</u>	<u>-</u>
	<u>₩ 2,332,832</u>	<u>₩ 2,284,775</u>

¹ As at December 29, 2016, the Company issued convertible notes to KEXIM to secure its capital, by offsetting ₩1,000,000 million of the outstanding balance of export financing loan (expiry date : January 2, 2018) made from November 25, 2015 to December 12, 2016.

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These convertible bonds are classified as equity as there is no contractual cash payment obligation of the issuer. Conditions for issue of the convertible bonds have changed as of June 28, 2017 and details of changed conditions are as follows:

	Details
Bonds	8th Private unregistered non-guarantee convertible bond
Value at issue	₩ 1,000,000 million
Maturity	December 29, 2046(30 years), The maturity date can be extended under the same conditions as the discretion of the issuer. Amount: 3% until June 28, 2017, 1% until Dec 31, 2021, 0.25% added every year on standard yield of 5 year maturity public unsecured corporate bonds.
Interest paid	Payment: Pay quarterly, Optional payment suspension only if there is no reason for not suspending interest payment(*) (*)Reason for not suspending interest payment: A dividend payment decision is made in the last 12 months, or the shares of the issuer are reduced by the Company's retained earnings or purchased, repaid by the Company
Early redemption right	Optional redemption for all and part of the bonds every year, after Dec 31, 2021
Conversion condition	₩ 40,350 per share
Trigger clause	The liquidation of the issuing company

²As at June 28, 2017, the Company issued convertible bonds to KEXIM to secure its capital, by offsetting ₩ 1,284,775 million won of the outstanding balance of export financing loan (expiry date : December 31, 2017) made from October 17, 2014 to February 9, 2017.

These convertible bonds are classified as equity as there is no contractual cash payment obligation of the issuer. Details of convertible bonds issued by the Company are as follows:

	Details
Bonds	9th Private unregistered non-guarantee convertible bond
Value at issue	₩ 1,284,775 million
Maturity	June 28, 2047 (30 years), The maturity date can be extended under the same conditions as the discretion of the issuer. Amount: 1.0% until December 31, 2021, 0.25% added every year on standard yield of 5 year maturity public unsecured corporate bonds. Payment: Pay quarterly, Optional payment suspension only if there is no reason for not suspending interest payment(*)
Interest paid	(*)Reason for not suspending interest payment: A dividend payment decision is made in the last 12 months, or the shares of the issuer are reduced by the Company's retained earnings or purchased, repaid by the Company
Early redemption right	Optional redemption for all and part of the bonds every year, after 3 years

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	from the issuance date
Conversion condition	₩ 40,350 per share
Trigger clause	The liquidation of the issuing company

³As at March 14, 2018, the Company issued convertible bonds to KEXIM to secure its capital, by offsetting ₩ 48,057 million won of the outstanding balance of export financing loan (expiry date : March 27, 2018) made from January 31, 2018.

These convertible bonds are classified as equity as there is no contractual cash payment obligation of the issuer. Details of convertible bonds issued by the Company are as follows:

	Details
Bonds	10th Private unregistered non-guarantee convertible bond
Value at issue	₩ 48,057 million
Maturity	March 14, 2048 (30 years), The maturity date can be extended under the same conditions as the discretion of the issuer. Amount: 1.0% until December 31, 2021, 0.25% added every year on standard yield of 5 year maturity public unsecured corporate bonds. Payment: Pay quarterly, Optional payment suspension only if there is no reason for not suspending interest payment(*) (*)Reason for not suspending interest payment: A dividend payment decision is made in the last 12 months, or the shares of the issuer are reduced by the Company's retained earnings or purchased, repaid by the Company
Interest paid	Overdue interest rate: If early redemption amount isn't paid after the notification of early redemption right or interest isn't paid despite no reason for not suspending interest payment, the overdue interest rate of 15% is applied.
Early redemption right	Optional redemption for all and part of the bonds, after adjustment date of interest rate (*). (*) Adjustment date of Interest rate: December 31, 2021.
Conversion condition	₩ 40,350 per share
Trigger clause	The liquidation of the issuing company

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30. Earnings Per Share

30.1 Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period excluding ordinary shares purchased by the Company and held as treasury shares.

Basic earnings per share for the three-month and six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(Korean won)</i>	2018			
	Three months		Six months	
Profit for the period	₩	321,368,484,226	₩	561,816,518,168
Interest paid on hybrid capital instrument ¹		(5,874,884,210)		(11,615,417,090)
Profit on ordinary shares		315,493,600,016		550,201,101,078
Weighted average number of ordinary shares outstanding		<u>107,189,545</u>		<u>106,970,974</u>
Basic earnings per share	₩	<u>2,943</u>	₩	<u>5,143</u>

<i>(Korean won)</i>	2017			
	Three months		Six months	
Profit for the period	₩	1,266,592,952,959	₩	1,489,146,540,760
Interest paid on hybrid capital instrument		(7,506,849,310)		(15,006,849,310)
Profit on ordinary shares		1,259,086,103,649		1,474,139,691,450
Weighted average number of ordinary shares outstanding		<u>66,118,285</u>		<u>65,844,107</u>
Basic earnings per share	₩	<u>19,156</u>	₩	<u>22,616</u>

¹ Interest payable related to hybrid capital instrument ₩11,615 million (accumulated: ₩ 23,054 million) is included as at June 30, 2018.

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30.2 Weighted-average number of ordinary shares outstanding used in the calculation of earnings per share, for the three-month and six-month periods ended June 30, 2018 and 2017, respectively, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018 (3 months)				
	Issued Shares	Treasury Shares	Outstanding Shares	Number of days	Weighted average number of ordinary shares outstanding
Apr 1, 2018	107,205,752	(16,207)	107,189,545	91	107,189,545
				91	107,189,545
<i>(in millions of Korean won)</i>	June 30, 2018 (6 months)				
	Issued Shares	Treasury Shares	Outstanding Shares	Number of days	Weighted average number of ordinary shares outstanding
Jan 1, 2018	106,656,288	(16,207)	106,640,081	72	42,420,364
Mar 14, 2018	107,205,752	(16,207)	107,189,545	109	64,550,610
				181	106,970,974
<i>(in millions of Korean won)</i>	June 30, 2017 (3 months)				
	Issued Shares	Treasury Shares	Outstanding Shares	Number of days	Weighted average number of ordinary shares outstanding
Apr 1, 2017	65,576,960	(16,207)	65,560,753	89	63,700,308
Jun 29, 2017	85,223,996	(16,207)	85,207,789	2	2,417,977
				91	66,118,285
<i>(in millions of Korean won)</i>	June 30, 2017 (6 months)				
	Issued Shares	Treasury Shares	Outstanding Shares	Number of days	Weighted average number of ordinary shares outstanding
Jan 1, 2017	65,576,960	-	65,576,960	24	8,668,449
Jan 25, 2017	65,576,960	(16,207)	65,560,753	155	55,956,062
Jun 29, 2017	85,223,996	(16,207)	85,207,789	2	1,219,596
				181	65,844,107

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30.3 Diluted earnings is adjusted weighted average number of ordinary shares outstanding with assumption that every dilutive securities are converted to ordinary shares. The company issued dilutive securities as convertible bonds (hybrid capital instrument). Convertible bonds are assumed that converted to ordinary shares and interest cost of the convertible bonds added to earnings of ordinary shares.

<i>(Korean won)</i>	2018			
	Three months		Six months	
Profit on ordinary shares	₩	315,493,600,016	₩	550,201,101,078
Interest of convertible bonds (hybrid capital instrument)		(5,874,884,210)		(11,615,417,090)
Profit used to determine diluted EPS		321,368,484,226		561,816,518,168
Weighted average number of ordinary shares outstanding		107,189,545		106,970,974
Adjustment:				
Assumption of conversion of permanent bonds		88,464,683		75,798,744
Weighted average number of ordinary shares outstanding		195,654,228		182,769,718
Diluted earnings per share	₩	1,643	₩	3,074

<i>(Korean won)</i>	2017			
	Three months		Six months	
Profit on ordinary shares	₩	1,266,592,952,959	₩	1,489,146,540,760
Interest of convertible bonds (hybrid capital instrument)		7,506,849,310		15,006,849,310
Profit used to determine diluted EPS		1,274,099,802,269		1,504,153,390,070
Weighted average number of ordinary shares outstanding		66,118,285		65,844,107
Adjustment:				
Assumption of conversion of permanent bond		24,783,147		24,883,026
Weighted average number of ordinary shares outstanding		90,901,432		90,727,133
Diluted earnings per share	₩	14,016	₩	16,579

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31. Selling and Administrative Expenses

31.1 Details of selling expenses for the three-month and six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Six months	Three months	Six months
Advertising	₩ 221	₩ 458	₩ 113	₩ 438
Freight and custody charges	-	12	-	1
Commission	16,422	30,634	36,783	79,818
	<u>₩ 16,643</u>	<u>₩ 31,104</u>	<u>₩ 36,896</u>	<u>₩ 80,257</u>

31.2 Details of administrative expenses for the three-month and six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Six months	Three months	Six months
Salaries	₩ 10,968	₩ 22,188	₩ 9,053	₩ 20,382
Post-employment benefits	842	1,790	902	2,074
Employee benefits	2,734	5,325	2,210	5,364
Rental expenses	1,232	2,438	4,204	8,117
Depreciation	298	560	1,234	2,768
Repairs and maintenance expense	970	2,711	5,813	14,312
Travel expense	822	1,414	513	1,011
Training expense	293	502	166	318
Administrative service costs	2,192	7,059	2,360	4,303
Other	(33,637)	(31,293)	66,496	69,221
	<u>₩ (13,286)</u>	<u>₩ 12,694</u>	<u>₩ 92,951</u>	<u>₩ 127,870</u>

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32. Interest Income, Finance Income and Costs

The Company classifies interest incomes and expenses as finance income and costs, and details of net finance income (costs) for the three-month and six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Six months	Three months	Six months
Interest income:				
Deposits	₩ 1,792	₩ 3,884	₩ 964	₩ 1,799
Trade and other receivables	9,180	12,156	3,729	7,005
Held-to-maturity financial assets	2	4	2	4
	<u>10,974</u>	<u>16,044</u>	<u>4,695</u>	<u>8,808</u>
Dividend income:				
Financial assets at fair value through other comprehensive income	6,959	7,106	-	476
Investments in associates	-	109	-	196
	<u>6,959</u>	<u>7,215</u>	<u>-</u>	<u>672</u>
Reversal of financial guarantee liabilities:				
Subsidiaries and others	30,222	30,222	3,608	27,141
Gain on debt restructuring:				
Gain on debt restructuring	-	10	1,370,748	1,370,748
	<u>37,181</u>	<u>37,447</u>	<u>1,374,356</u>	<u>1,398,561</u>
Interest expenses:				
Bank overdrafts and interests on loans	41,723	79,005	47,490	91,147
Less: Amount included in cost of qualifying assets	-	-	(35,698)	(66,038)
	<u>41,723</u>	<u>79,005</u>	<u>11,792</u>	<u>25,109</u>
Transfer to financial guarantee liabilities:				
Subsidiaries and others	(503)	-	-	-
	<u>41,219</u>	<u>79,005</u>	<u>11,792</u>	<u>25,109</u>
Net finance income(cost)	₩ 6,936	₩ (25,514)	₩ 1,367,259	₩ 1,382,260

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33. Foreign Exchange Gains and Losses

Details of foreign exchange gains and losses for the three-month and six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Six months	Three months	Six months
Gains on foreign currency transactions	₩ 86,703	₩ 115,283	₩ 129,220	₩ 213,206
Gains (Losses) on foreign exchange translations	85,783	98,800	(167,786)	170,481
	172,486	214,083	(38,566)	383,687
Losses on foreign currency transactions	26,283	95,294	51,279	171,417
Losses (Gains) on foreign exchange translations	66,955	89,049	(118,555)	254,697
	93,238	184,343	(67,276)	426,114
Net foreign exchange gains and losses	₩ 79,248	₩ 29,740	₩ 28,710	₩ (42,427)

34. Other Non-Operating Income and Expenses

34.1 Details of other non-operating income for the three-month and six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Six months	Three months	Six months
Gains on valuation of firm commitment	₩ 92,410	₩ 94,249	₩ 4,621	₩ 4,625
Gains (Losses) on valuation of currency forward	(36,248)	212	(186,305)	228,851
Gains on currency forward transactions	2,764	5,273	58,206	95,938
Gains on disposal of available-for-sales securities	-	-	1,028	1,038
Gains on disposal of property, plant and equipment	634	798	1,231	1,438
Others	8,683	23,485	14,351	58,111
	₩ 68,243	₩ 124,017	₩ (106,868)	₩ 390,001

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34.2 Details of other non-operating expenses for the three-month and six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Six months	Three months	Six months
Losses (Gains) on valuation of firm commitment	₩ (28,358)	₩ 637	₩ (119,844)	₩ 299,288
Losses on valuation of currency forward	109,242	109,242	8,560	8,563
Losses on currency forward transactions	9,845	13,294	183	217
Losses on disposal of property, plant and equipment	5	6	-	116
Impairment losses (Reversal of impairment loss) of property, plant and equipment	(434)	(434)	493,940	493,940
Impairment losses of intangible assets	-	-	29,403	29,403
Impairment losses of investment properties	-	43	1,353	1,353
Others	(452)	10,219	295,486	299,461
	<u>₩ 89,848</u>	<u>₩ 133,007</u>	<u>₩ 709,081</u>	<u>₩ 1,132,341</u>

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35. Expenses by Nature

Expenses classified by nature for the six-month periods ended June 30, 2018 and 2017, are as follows:

(in millions of Korean won)

	2018		
	Selling and administrative and research and development expenses	Cost of sales	Total
Changes in inventories	₩ -	₩ (621,180)	₩ (621,180)
Purchase of raw materials	-	2,189,089	2,189,089
Employee benefits	35,388	380,375	415,763
Depreciation	861	51,662	52,523
Amortization	5	309	314
Commission	30,637	47,324	77,961
Travel	1,524	1,680	3,204
Administrative service fees	8,194	31,622	39,816
Rent	2,506	9,863	12,369
Others	(74,623)	1,914,328	1,839,705
	<u>₩ 4,492</u>	<u>₩ 4,005,072</u>	<u>₩ 4,009,564</u>

(in millions of Korean won)

	2017		
	Selling and administrative and research and development expenses	Cost of sales	Total
Changes in inventories	₩ -	₩ 185,455	₩ 185,455
Purchase of raw materials	-	2,045,194	2,045,194
Employee benefits	33,518	362,123	395,641
Depreciation	3,373	72,361	75,734
Amortization	38	2,647	2,685
Commission	79,818	64,540	144,358
Travel	1,107	4,187	5,294
Administrative service fees	15	33,878	33,893
Rent	8,154	9,891	18,045
Others	336,872	1,654,284	1,991,156
	<u>₩ 462,895</u>	<u>₩ 4,434,560</u>	<u>₩ 4,897,455</u>

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36. Related Parties

36.1 Related parties of the Company as at June 30, 2018, are as follows:

	Name of company
Parent company	KDB
Subsidiaries ¹	DW Mangalia Heavy Industries S.A.(“D.M.H.I”), DSME Shandong Co., Ltd, DK Maritime S.A., DSME Oman LLC, DSME Far East LLC, DSME Information and Consulting, PT. DSME ENR CEPU
Associates	Wing Ship Technology Corp., TPI Megaline Co.,Ltd., DAEHAN SHIPBUILDING CO.,LTD, Welliv Private investment joint company Partnerships, Shinhan Heavy Industries Co., Ltd., Samwoo Heavy Industry Co., Ltd., Welliv Corp.
Joint ventures	SBM Shipyard Ltd.
Other related parties	D&H Solutions AS, PT. DSME Indonesia, DSME Offshore Engineering Center, DSME Kazakhstan LLP, PAENAL YARD, PT. Petrogas Jatim Utama Cendana, KC Kazakh B.V., SEYOUNG Academy for middle school students and others, Related parties of KDB and government related parties(KEXIM and others) ²

¹ Dewind Co. has been excluded from the related parties as the sale of shares was completed during the current period.

² In accordance with the exemption on disclosure of related party transactions regarding government related special entity as prescribed under Korean IFRS 1024, the Company has not disclosed all transactions, commitments and outstanding balances concerning the government related special entity.

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36.2 Significant transactions with the related parties for the six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>			2018		2017
		Transaction			
Parent company:					
KDB		Interest and other income	₩ 7,152	₩	172,290
		Interest and other expenses	129,627		34,234
		Proceeds from borrowings	48,951		363,800
		Redemption of borrowings	220,000		407,848
		Debt-to-equity swap	-		268,932
Subsidiaries:					
DSME Shandong Co., Ltd		Purchases	27,223		88,023
Other subsidiaries		Sales	106		7,844
		Purchases	22,203		226,134
		Interest and other income	4		3,933
		Interest and other expense	1,498		23,894
		Increase in loans	-		36,056
		Decrease in loans	1,547		35,400
		Debt-to-equity swap	25		-
Associates and Joint ventures:					
DAEHAN SHIPBUILDING CO., LTD and others		Sales	1,625		626
		Purchases	182,977		8,701
		Interest and other income	3,069		1,063
		Interest and other expense	20,894		-
		Decrease in loans	-		5,347
Other related parties:					
KEXIM		Interest and other expense	24,366		160,787
		Proceeds from borrowings	60,393		229,100
		Redemption of borrowings	220,000		131,404
		Debt-to-equity swap(permanent bonds conversion)	48,314		1,284,775
Related parties of KDB and others		Sales	12,464		6
		Purchases	30,977		42,248
		Interest and other income	5,491		69
		Interest and other expense	1,152		241
		Debt acquisition	86,275		-
		Decrease in loans	-		384
Total		Sales	14,195		8,476
		Purchases	263,380		365,106
		Interest and other income	15,717		177,355
		Interest and other expense	177,537		219,156
		Proceeds from borrowings	109,344		592,900
		Redemption of borrowings	440,000		539,252
		Increase in loans	-		36,056
		Decrease in loans	1,547		41,131

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Debt-to-equity swap		25	268,932
Debt-to-equity swap(permanent bonds conversion)		48,314	1,284,775
Debt acquisition	₩	86,275	₩ -

36.3 Significant receivables from and payables to the related parties as at June 30, 2018 and December 31 2017, are as follows:

(in millions of
Korean won)

	June 30, 2018					
	Financial instruments and others ¹	Trade receivables ¹	Other receivables ¹	Loans and others ¹	Borrowings	Other payables
Parent company:						
KDB	₩ 949,569	₩ -	₩ 24,274	₩ 34,308	₩ 1,581,480	₩ 46,046
Subsidiaries:						
DSME Shandong Co., Ltd.	-	-	-	48,494	-	1,680
D.M.H.I	-	78,667	376,914	531,676	-	-
DK Maritime S.A.	-	84,837	-	-	-	-
Other subsidiaries	-	11	31	78,498	-	3,557
Associates:						
DAEHAN Shipbuilding Co. Ltd. and others	-	629	2,850	91,441	-	61,572
Joint ventures:						
SBM Shipyards Ltd. and others	-	-	-	183,133	-	-
Other related parties:						
D&H Solutions AS and others	-	4,761	-	32,850	-	-
KEXIM ²	-	-	-	2,432	711,908	1,015
Related parties of KDB	3,295	1,589	-	-	-	29
	₩ 952,864	₩ 170,494	₩ 404,069	₩ 1,002,832	₩ 2,293,388	₩ 113,899

¹ Amount before deduction of provision for impairment loss.

² As described in Note 29, hybrid capital instrument classified as equity were not included in the borrowings.

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<i>(in millions of Korean won)</i>	December 31, 2017					
	Financial instruments and others ¹	Trade receivables ¹	Other receivables ¹	Loans and others ¹	Borrowings	Other payables
Parent company:						
KDB	₩ 855,692	₩ -	₩ 24,274	₩ 135,988	₩ 1,709,152	₩ 12,236
Subsidiaries:						
DSME Shandong Co., Ltd.	-	636	1	29,316	-	4,397
D.M.H.I	-	78,667	376,914	531,796	-	-
Dewind Co.	-	-	-	115,551	-	421
DK Maritime S.A.	-	84,837	-	-	-	-
Other subsidiaries	-	9	49	78,504	-	1,515
Associates:						
DAEHAN SHIPBUILDING CO., LTD. and others	-	133	2,344	89,268	-	79,420
Joint ventures:						
SBM Shipyards Ltd. and others	-	-	-	183,133	-	-
Other related parties:						
D&H Solutions AS and others	-	4,866	-	32,850	-	64
KEXIM ²	-	-	-	1,954	904,404	1,571
Related parties of KDB	3,311	1,589	-	-	-	31
	₩ 859,003	₩ 170,737	₩ 403,582	₩ 1,198,360	₩ 2,613,556	₩ 99,655

¹ Amount before deduction of provision for impairment loss.

² As described in Note 29, hybrid capital instrument classified as equity were not included in the borrowings.

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Meanwhile, movements of provision for impairment of trade and other receivables in relation to the above receivables with related parties for the six-month period ended June 30, 2018 and for the year ended December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	Six-month period ended June 30, 2018			
	Beginning balance	Impairment loss (reversal)	Others¹	Ending balance
Trade receivables	₩ 163,503	₩ -	₩ -	₩ 163,503
Other receivables	376,914	-	-	376,914
Loans and others	1,004,676	(20,176)	(115,249)	869,251
	<u>₩ 1,545,093</u>	<u>₩ (20,176)</u>	<u>₩(115,249)</u>	<u>₩ 1,409,668</u>

<i>(in millions of Korean won)</i>	Year ended December 31, 2017			
	Beginning balance	Impairment loss (reversal)	Others²	Ending balance
Trade receivables	₩ 139,913	₩ -	₩ 23,590	₩ 163,503
Other receivables	375,060	110	1,744	376,914
Loans and others	911,319	18,503	74,854	1,004,676
	<u>₩ 1,426,292</u>	<u>₩ 18,613</u>	<u>₩ 100,188</u>	<u>₩ 1,545,093</u>

¹ After debt-to-equity swap on the loan receivable amounting to ₩ 114,115 million, the Company sold the entire shares of Dewind Co., its subsidiary.

² In connection with the payment guarantees provided for the repayment of borrowings of D.M.H.I and PT. DSME ENR CEPU, subsidiaries, the Company recognized guaranteed amounts to be executed as financial guarantee liabilities. Accordingly, when a loan was provided to a subsidiary during the payment guarantee agreement, the Company transferred the financial guarantee liability to provision for impairment on loans. Financial guarantee liability transferred during prior period amounts to ₩ 29,035 million.

36.4 Key management compensation for the three-month and six-month periods ended June 30, 2018 and 2017, is as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Six months	Three months	Six months
Short-term employee benefits	₩ 203	₩ 344	₩ 158	₩ 409
Post-employment benefits	18	44	55	110
Total	<u>₩ 221</u>	<u>₩ 388</u>	<u>₩ 213</u>	<u>₩ 519</u>

The Company's key management includes directors (including outside directors) who are registered executives and members of the Audit Committee.

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36.5 Significant collaterals and guarantees provided for the related parties as at June 30, 2018, are as follows:

(in thousands of foreign currency)

Provided for	Guaranteed amount		Guarantor
Subsidiaries ^{1,2,3}	USD	88,074	KEXIM and others
Other related parties ^{4,5}	USD	8,477	Tenjizchevroil LLP ("TCO") and others

¹ Payment guarantees for borrowings of USD 55 million are provided to financial institutions for D.M.H.I, a subsidiary. Due to the termination of the warranty obligation following the completion of DW Mangalia Heavy Industries SA sale on July 21, 2018, the Company recognized the reversal in financial guarantee liabilities amounting to ₩ 29,367 million (Note 32 and 45).

² The Company provided guarantees to PT. DEC joint ventures in Indonesia to finance for development in CEPU oil field.

³ The Company provides performance guarantees to HHIC-Phil (Hanjin Heavy Industries and Construction Co., Ltd) for the construction contracts offered by DSSC.

⁴ The Company provided performance guarantees related to local construction of Kazakhstan TCO FGP Module Fabrication.

⁵ The Company provided performance guarantees to KazMunayGas regarding the share of mining area in Kazakhstan disposed of by KC Kazakh B.V.

In connection with the payment guarantee for the related parties, the Company recognized financial guarantee liabilities amounting to ₩ 615 million. In addition, the Company recognized ₩ 51,252 million as financial liabilities at fair value through profit or loss, for those payment guarantee liabilities where change in condition is expected such as conversion to equity, conversion to perpetual bond and extension of maturity. In line with this, the Company acquired ₩ 86,275 million of loans where the original borrower failed to repay the principal and this amount was used to offset the above financial liabilities at fair value through profit or loss. Also, in relation to the liabilities acquired from the related parties, the Company executed debt adjustment through debt-to-equity swap, conversion to perpetual bond and etc. during the current period (see notes 29 and 43).

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36.6 Significant guarantees provided by related parties as at June 30, 2018, are as follows:

(in thousands of foreign currency)

Guarantor	Type of obligations guaranteed	Guaranteed amount	Type of borrowings	Borrowing amount
Parent company:				
KDB	Usance bills	USD 314,400	Short-term borrowings	USD 138,165
	Advance payment bonds and others	USD 4,700,000	-	USD 1,994,078
KEXIM	Advance payment bonds and others	USD 4,706,544	-	USD 3,334,103
			-	EUR 9,348
Total		USD 9,720,944		USD 5,466,346
				EUR 9,348

36.7 The Company entered into a non-cancellable long-term transportation contract with TPI Megaline Co.,Ltd. of which the term is 10 years. The book amount of finance lease assets as at June 30, 2018 is ₩ 31,758 million.

37. Construction Contracts

37.1 Changes in the remaining balance of construction contracts for the six-month period ended June 30, 2018, and for the year ended December 31, 2017, are as follows:

(in millions of Korean won)

Six-month period ended June 30, 2018

	Beginning balance	New contracts	Others ¹	Recognized construction revenue ²	Ending balance
Commercial ships	₩ 8,091,604	₩ 3,219,588	₩ 474,470	₩ (3,384,734)	₩ 8,400,928
Offshore plant and special ships	5,203,669	32,093	355,336	(1,126,743)	4,464,355
Others	9,623	-	(565)	(209)	8,849
	₩ 13,304,896	₩ 3,251,681	₩ 829,241	₩ (4,511,686)	₩ 12,874,132

(in millions of Korean won)

Year ended December 31, 2017

	Beginning balance	New contracts	Others ¹	Recognized construction revenue ²	Ending balance
Commercial ships	₩ 12,955,970	₩ 2,883,730	₩ (1,082,481)	₩ (6,665,614)	₩ 8,091,605
Offshore plant and special ships	7,982,303	294,124	556,376	(3,629,134)	5,203,669
Others	14,340	-	(1,896)	(2,822)	9,622
	₩ 20,952,613	₩ 3,177,854	₩ (528,001)	₩ (10,297,570)	₩ 13,304,896

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¹ Others consist of increase or decrease due to fluctuations of foreign exchange rates and changes of contract amount.

² Addition or subtraction on sales related to firm commitment assets (liabilities) is excluded.

37.2 Details of in-progress construction contracts such as recognized construction profit or loss as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018			
	Accumulated construction revenue	Accumulated construction cost	Accumulated profit (loss)	Reserve ¹
Commercial ships	₩ 5,617,228	₩ (5,446,220)	₩ 171,009	₩ 968,587
Offshore plant and special ships	17,113,248	(18,655,922)	(1,542,675)	-
Other	132,481	(81,372)	51,109	-
	<u>₩ 22,862,957</u>	<u>₩ (24,183,514)</u>	<u>₩ (1,320,557)</u>	<u>₩ 968,587</u>

<i>(in millions of Korean won)</i>	December 31, 2017			
	Accumulated construction revenue	Accumulated construction cost	Accumulated profit (loss)	Reserve ¹
Commercial ships	₩ 6,449,420	₩ (6,228,251)	₩ 221,169	₩ 978,285
Offshore plant and special ships	24,974,212	(26,802,761)	(1,828,549)	-
Other	132,273	(81,137)	51,136	-
	<u>₩ 31,555,905</u>	<u>₩ (33,112,149)</u>	<u>₩ (1,556,244)</u>	<u>₩ 978,285</u>

¹ Reserve, before the deduction of provision for impairment, refer to the receivable related to a transferred vessel for which payment term is postponed, and the principal and the accrued interest are being collected in accordance with the contract.

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37.3 Details of due to and from customers for contract work as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018		December 31, 2017	
	Contract assets¹	Contract liabilities¹	Due from customers contract work	Due to customers contract work
Commercial ships	₩ 2,439,709	₩ 779,868	₩ 2,364,612	₩ 1,299,048
Offshore plant and special ships	1,295,385	1,071,084	1,668,962	1,054,142
Others	14,002	41,522	13,025	25,297
	<u>₩ 3,749,096</u>	<u>₩ 1,892,474</u>	<u>₩ 4,046,599</u>	<u>₩ 2,378,487</u>

¹ Incremental costs of obtaining a contract and advance received which is not a construction contract are not included in the above contract assets and liabilities.

Provisions for construction loss are not included in the due from/to customers as at June 30, 2018. Provisions for construction loss included in the due from customers amount to ₩ 299,234 million and provisions for expected loss included in the due to customers amount to ₩ 307,181 million as at December 31, 2017.

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37.4 Contractual details where contract revenue for the six-month period ended June 30, 2018 is more than 5% of sales in previous year, are as follows:

(in millions of Korean Won)	Customers	Contract date	Expected completion date ¹	Percentage of Completion	June 30, 2018				December 31, 2017			
					Contract assets (Due from customers for contract work)		Trade receivables (receivables from construction contracts)		Due from customers for contract work		Trade receivables(receivables from construction contracts)	
					Gross	Provision	Gross	Provision ²	Gross	Provision	Gross	Provision ²
Drillship	America	2012-09-27	2019-09-30	99.0	103,688	-	-	-	91,970	-	-	-
Drillship	Africa	2013-10-15	2019-01-30	96.8	502,680	(216,182)	-	-	480,138	(206,488)	-	-
Drillship	Africa	2013-10-15	2018-12-30	96.5	506,844	(216,182)	-	-	484,116	(206,488)	-	-
Drillship	America	2013-06-24	2020-06-30	98.7	171,811	-	-	-	181,169	-	-	-
FPSO	Oceania	2012-03-08	2019-01-30	97.9	127,877	-	44,068	-	185,644	-	24,490	-
FP	Africa	2012-08-16	2019-02-28	98.7	-	-	1,650	-	-	-	(85)	-
FP	Europe	2012-12-21	2018-08-30	97.8	-	-	25,591	-	-	-	24,986	-
FP	Asia	2013-05-26	2018-12-30	95.6	12,425	-	625	-	14,806	-	1,343	-
FP	Asia	2014-10-09	2020-07-27	26.9	-	-	90,230	-	-	-	71,331	-

¹ Expected completion date is the date expected by the Company as at June 30, 2018, and it is affected by a variety of uncertainties that depend on the outcome of future events.

² Accumulated impairment loss excludes the loss recognized through the collective assessment.

As at June 30, 2018, two construction contracts were omitted in the disclosure according to Amendment to Korean IFRS 1011, article 45.2(2) due to contractual reasons with customers. The Company has never disclosed such above-mentioned omitted disclosures in the securities report, investment prospectus, nor quarterly report / semi-annual reports required in Capital Market Act. The Company reported to the Audit Committee on August 10, 2018 that this item will not be disclosed in the financial statements.

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37.5 Details of contracts for using rate of accumulated contract costs incurred per operating segments divided by estimated total contract costs to measure percentage of completion, are as follows:

June 30, 2018

(in millions of Korean won)

		Provisions - for expected - loss	Changes in total contract revenue		Changes in total estimated contract costs		Changes in gain (loss) from construction		Contract assets (Due from customers under construction contracts)									
			Changes in estimation	Correction of error	Changes in estimation	Correction of error	Changes in estimation	Correction of error	Gross amount	Accumulated impairment loss								
Commercial ships	₩	349,549	₩	231,013	₩	-	₩	59,264	₩	-	₩	291,750	₩	-	₩	2,439,709	₩	-
Offshore plant and special ships		47,625		299,666		-		177,833		-		99,414		-		1,727,749		(432,365)
Other		-		-		-		-		-		-		-		14,002		-
		<u>397,174</u>		<u>530,679</u>		<u>-</u>		<u>237,097</u>		<u>-</u>		<u>391,164</u>		<u>-</u>		<u>4,181,460</u>		<u>(432,365)</u>

December 31, 2017

(in millions of Korean won)

		Provisions - for expected - loss	Changes in total contract revenue		Changes in total estimated contract costs		Changes in gain (loss) from construction		Due from customers under construction contracts									
			Changes in estimation	Correction of error	Changes in estimation	Correction of error	Changes in estimation	Correction of error	Gross amount	Accumulated impairment loss								
Commercial ships	₩	355,846	₩	(755,338)	₩	-	₩	(711,168)	₩	-	₩	400,146	₩	-	₩	2,364,612	₩	-
Offshore plant and special ships		250,568		850,142		-		(86,334)		-		1,100,572		-		2,320,537		(651,574)
Other		-		2,041		-		224		-		(1)		-		13,025		-
		<u>606,414</u>		<u>96,845</u>		<u>-</u>		<u>(797,278)</u>		<u>-</u>		<u>1,500,717</u>		<u>-</u>		<u>4,698,174</u>		<u>(651,574)</u>

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37.6 Changes in the estimation of total contract revenues and costs

The impact of changes in estimated total contract revenue and costs on profit or loss for the six-month period ended June 30, 2018, for the year ended December 31, 2017, and for the succeeding period are as follows:

June 30, 2018						
<i>(in millions of Korean won)</i>	Changes in estimated total contract revenue		Changes in estimated total contract cost		Impact on profit (loss) for the period	Impact on profit (loss) for the succeeding period
Commercial ships	₩	231,013	₩	59,264	₩ 291,750	₩ (120,001)
Offshore plant and special ships		299,666		177,833	99,414	22,419
	₩	<u>530,679</u>	₩	<u>237,097</u>	₩ 391,164	₩ (97,582)
December 31, 2017						
<i>(in millions of Korean won)</i>	Changes in estimated total contract revenue		Changes in estimated total contract cost		Impact on profit (loss) for the period	Impact on profit (loss) for the succeeding period
Commercial ships	₩	(755,338)	₩	(711,168)	₩ 400,146	₩ (444,316)
Offshore plant and special ships		850,142		(86,334)	1,100,571	(164,095)
Other		2,041		224	(1)	1,818
	₩	<u>96,845</u>	₩	<u>(797,278)</u>	₩ 1,500,716	₩ (606,593)

The impact on profit (loss) for the period(prior period) and the succeeding period is determined based on total contract costs, which are estimated based on the circumstances present from the commencement of the contract to the end of current period(prior period), and the estimated contract revenue as at June 30, 2018(December 31, 2017). Contract costs and contract revenue may change in the future.

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38. Commitments and Contingencies

38.1 The Company provided 14 blank notes to Korea National Oil Corporation as construction warranty and others at June 30, 2018.

38.2 The Company is involved in a lawsuit as a plaintiff pending in relation to repayment request of lot loans, and thirteen other pending lawsuits with aggregated claim amount of ₩ 71,518 million as at June 30, 2018. The Company requested for arbitrations to the London Maritime Arbitrators Association in relation to settlement of contract amount and additional contract cost incurred with some customers.

38.3 As a result of the completion of the delivery of the ship in this period, DSA / MSA performance guarantee obligation for NASSCO shipping of DESEC Co., Ltd. at USD 5 thousand was terminated. In addition, the sale of Dewind Co. has been completed during the period, but the Company still provides a performance guarantee for turbine maintenance contracts concluded between Dewind Co. and WEIcan wind turbine contractors. The performance guarantee for this is CAD 3,200 thousand.

38.4 Certain investors who bought the Company's share, corporate bonds and commercial papers sued the Company, accounting firm and others for damage claims asserting that they were misled by false audit report, business report, registration of securities, prospectus, etc. Including the foresaid litigation, the Company is involved in 78 other lawsuits as a defendant with aggregated claim amount of USD 104,340 thousand and ₩ 245,815 million, including a pending lawsuit at Seoul High Court in relation to overtime payment request.

The outcome of the above cases cannot be reasonably estimated, and any outflows of resources and the timing are also uncertain as at June 30, 2018. The Company recognized the best estimated loss amounting to ₩ 452,422 million from pending litigations and performance guarantees as provisions as at June 30, 2018.

38.5 The Company's major joint ventures are as follows.

(i) The Company has invested in Nigeria oil fields Nigeria development project by forming a Korean consortium (9.75% of the Company's shares) including Korea National Oil Corp. The Company recognized the investment in Nigeria oil fields as other investment assets.

(ii) The Company has invested in Kazakhstan oil fields development project by forming a Korean consortium (5.00% of the Company's shares). The consortium has invested in Jambyl mine near the Caspian Sea by forming a Korean consortium of 27% (1.35% of the Company's shares) with Kazmunay Gas, Kazakhstani national oil company.

(iii) The Company has participated in a Korean consortium (85% of the Company's shares) with GNG Holdings Inc. for the Cepu oil field in Indonesia.

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(iv) The Company has invested in "Southwest Pacific Seafloor Hydrothermal Deposit Project" with the Ministry of Land, Transport and Maritime Affairs in order to secure exclusive development rights of the project.

38.6 Corporate Judging Committee of KRX decided to evaluate the Company for suspicion of violating accounting standards and suspicion of former employee embezzlement and malpractice. The Committee granted a period of improvement for one year until September 28, 2017. Accordingly, trading of the shares issued by the Company was suspended during the period of improvement. On October 26, 2017, the Committee decided to release the trading suspension on October 30, 2017.

38.7 As at June 30, 2018, the estimated loss amounting to ₩ 63,981 million out of the claim amount of ₩ 88,199 million related to the construction contract of the Company was included in the statement of financial position as provisions for construction warranties. Meanwhile, the Company is obligated to warranty liabilities in connection with the construction contracts of the Company. As a result, the Company assumes the expected warranty cost as the provision for construction warranties (Note 24).

38.8 Details of guaranteed amount to major financial institutions as at June 30, 2018 are as follows:

(in thousands of US dollar and millions of Korean won)

			Amount
KDB and others	Issuance of L/C limit	USD	1,061,800
	Foreign-currency payment guarantee limit	USD	10,342,351
	Borrowing limit	USD	1,041,516
		₩	3,843,543

38.9 The Company has been using a certain portion of a building through a lease agreement. Accordingly, rental expenses recognized from the lease agreement for the six-month periods ended June 30, 2018 and 2017 are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Rental expenses	2,190	66

The lease agreement can be renewed at the market price at the end of the lease term. Also, contract termination is not permitted during the contract period of 33 months commencing at October 28, 2017. To terminate the agreement, the Company must notify it three months in advance only after the period is elapsed. There is no purchase option when the agreement is terminated.

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The total future minimum lease payments are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Less than 1 year	4,501	192
Between 1 year and 5 years	16,147	549
	₩ <u>20,648</u>	₩ <u>741</u>

39. Cash Flows from Operating Activities

Cash flows from operating activities for the six-month periods ended June 30, 2018 and 2017, are as follow:

<i>(in millions of Korean won)</i>	2018	2017
1. Profit for the period	₩ 561,817	₩ 1,489,147
2. Adjustments for	(53,801)	(280,951)
(1) Addition of expenses	329,116	1,852,013
Post-employment benefits	25,721	28,548
Employee benefits	921	(259)
Depreciation	52,523	75,735
Amortization	314	2,685
Impairment loss and other impairment losses	(62,389)	235,210
Loss on valuation of firm commitment	637	299,288
Loss on valuation of currency forward contracts	109,242	8,563
Loss on valuation of financial assets at fair value through profit or loss	8,398	-
Loss on disposal of property, plant and equipment	6	116
Impairment loss on other investment assets	43	72
Interest expenses	79,006	25,109
Capitalized financial expense	-	81,452
Loss on foreign currency translation	89,049	254,697
Impairment loss on intangible assets	-	29,404
Impairment loss on property, plant and equipment	(434)	493,940
Income tax expense	14,052	6,484
Transfer to provision for construction warranties	11,931	24,817
Transfer to provision for construction loss	-	-
Transfer to provision for contingent liabilities	-	284,256
Maintenance and repairs	96	48
Loss on disposal of non-current asset held for sale	-	495
Impairment loss on investment properties	-	1,353
(2) Deduction of income	(382,917)	(2,132,964)
Reversal of provision for construction loss	32,975	224,985
Reversal of provision for contingent liabilities	71,198	-
Gain on valuation of firm commitment	94,249	4,625
Gain on valuation of currency forward contracts	211	228,851

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Reversal of impairment loss and other impairment losses	23,414	8,232
Gain on disposal of available-for-sale financial assets	-	1,038
Gain on disposal of investments in subsidiaries	-	12,215
Gain on disposal of investments in associates and joint ventures	-	1,126
Gain on disposal of non-current asset held for sale	-	469
Gain on valuation of financial assets at fair value through profit or loss	7,064	-
Gain on disposal of property, plant and equipment	798	1,438
Reversal of impairment loss on property, plant and equipment	-	9
Reversal of impairment loss on intangible assets	-	234
Interest income	16,044	8,808
Dividend income	7,215	672
Reversal of financial guarantee liabilities	30,222	27,142
Gain on foreign currency translation	98,800	170,481
Gain on debt restructuring	10	1,370,748
Gain on Foreign currency transaction debt-to-equity swaps	717	71,891
3. Changes in working capital	1,029	(1,358,397)
Trade and other receivables	132,860	109,668
Inventories	(163,665)	136,885
Due from customers for contract work	-	100,108
Contract assets	81,975	-
Other current assets	261,720	39,818
Non-current trade and other receivables	1,352	17,601
Firm commitment assets	75,516	35,369
Currency forward assets	24,578	(124,254)
Other non-current assets	5,312	-
Trade and other payables	(256,032)	(494,276)
Due to customers for contract work	-	(1,083,988)
Contract liabilities	(178,832)	-
Other current liabilities	71,915	(32,774)
Non-current trade and other payables	(1,331)	-
Net defined benefit obligation	(20,551)	(20,068)
Provisions	(4,583)	(42,486)
Currency forward liabilities	40,861	-
Firm commitment liabilities	(70,066)	-
Cash generated from(used in) operations	₩ 509,044	₩ (150,201)

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40. Non-Cash Transactions

40.1 The principle significant non-cash transactions from investment and financing activities that are not included in the separate statements of cash flows are as follows:

<i>(in millions of Korean won)</i>	2018	2017
Transfer of borrowings to capital(debt-to-equity swaps)	₩ 13,170	₩ 1,590,047
Transfer of borrowings to hybrid capital instruments	48,057	1,284,775
Taking over liabilities of other related parties	86,275	-
Transfer of long-term loans to the respective current assets	-	16,356
Transfer of long-term borrowings to current portion of long-term borrowings	237,553	95
Transfer of construction in progress to property, plant and equipment	3,126	2,686
Transfer of financial guarantee liabilities to provision for impairment	-	29,035
Transfer of held-to-maturity financial assets to the respective current assets	-	20
Transfer to non-current assets held for sale	676	63,054

Meanwhile, cash inflows and outflows arising from short-term financial instruments, short-term loans and short-term borrowings with large frequent transactions and short-term maturities have been presented in net amounts.

40.2 The adjustment of liabilities arising from financing activities for the six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2018 (6 months)					Total
	Liabilities from financing activities					
	Short-term borrowings	Current portion of long-term borrowings	Long-term borrowings	Debentures	Finance lease obligations	
Beginning balance	₩ 1,950,686	₩ 435,253	₩ 638,935	₩ 530,661	₩ -	₩ 3,555,535
Cash flows from financing activities	(357,589)	(4)	-	-	(8,629)	(366,222)
Exchange differences	28,319	-	46,393	-	-	74,712
Amortization	-	-	2,887	20,477	976	24,340
Debt restructuring ¹	(86,275)	-	17,255	(206)	-	(69,226)
Transfer and others	86,274	(237,553)	229,772	-	39,698	118,191
Ending balance	₩ 1,621,415	₩ 197,696	₩ 935,242	₩ 550,932	₩ 32,045	₩ 3,337,330

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¹ Included the difference between the fair value of the liability that would change as a result of the debt restructuring and the book amount of the derecognized liability (Note 43).

<i>(in millions of Korean won)</i>	June 30, 2017 (6 months)						Total
	Liabilities from financing activities						
	Short-term borrowings	Current portion of long-term borrowings	Current portion of long-term debentures	Long-term borrowings	Debentures		
Beginning balance	₩ 2,501,217	₩ 1,171,734	₩ 1,348,886	₩ 652,737	₩ 192,424	₩ 5,866,998	
Cash flows from financing activities	455,987	(60)	-	(86)	-	455,841	
Exchange differences	(45,108)	(84,226)	-	(13,780)	-	(143,114)	
Amortization	-	-	1,114	32	8,503	9,649	
Transfer and others	(1,528,668)	(282,610)	(1,350,000)	(326,683)	315,477	(3,172,484)	
Ending balance	₩ 1,383,428	₩ 804,838	₩ -	₩ 312,220	₩ 516,404	₩ 3,016,890	

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41. Segment Information

41.1 The Company classifies its segments by the type of goods and details of the goods and services that generate income, and major customers for each segment are as follows:

Division	Goods or services	Major customer	Ratio of sales (%)
Commercial ships	LNGC and others	BP SHIPPING LIMITED and others	73.9
Offshore plants and special ships	Marine steel structure and others	TENGIZCHEVROIL LLP and others	25.5
Others	Energy, service	Various customers	0.6
			100.0

41.2 Financial information by segment is as follows:

(in millions
of Korean won)

	June 30, 2018			
	Commercial Ships	Off shore plants and special ship	Others ¹	Total
Sales	₩ 3,375,231	₩ 1,167,298	₩ 26,605	₩ 4,569,134
Gross profit	366,256	119,279	78,527	564,062

¹ The Company believes that it is probable that the Company wins the lawsuit regarding work holiday allowance, based on the Supreme Court *en banc decision* regarding similar lawsuit. Therefore, the Company recognized reversal of provision amounting to ₩ 65,762 million, which is included in gross profit or loss of other division.

(in millions
of Korean won)

	June 30, 2017			
	Commercial Ships	Off shore plants and special ship	Others	Total
Sales	₩ 3,372,921	₩ 2,372,153	₩ 29,072	₩ 5,774,146
Gross profit	521,228	810,402	7,957	1,339,587

The number of major customer who accounts more than 10% of the Company's revenue is three (June 30, 2017: two) and their revenue amount to ₩1,734,363 million and ₩1,500,998 million for the six-month periods ended June 30, 2018 and 2017, respectively.

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42. Self-Help Plan to Stabilize Financial Position of the Company

The Company entered into an agreement with the creditor bank on November 9, 2015 in order to handle the deterioration of financial situation from cumulative operating loss incurred for the following reasons.

1) Increase in total contract costs due to delays in offshore projects and recognition of provisions for delays in deliveries.

Due to consistent delays in the progress of the offshore projects compared to the plan, this has been reflected in the total contract costs and as a consequence additional loss has been recognized.

In addition, the Company recognized

provisions for delay as the Company believes that it is probable that the actual project delivery date may exceed the contractual delivery date due to delay in progress.

2) Recognition provisions for impairment by assessing the collectability of the amounts due from customers as credit ratings of customers declined.

Customers, who are facing financial difficulties due to prolonged decline of global oil prices, have been requesting for delivery delay of drill ship. The Company considered this fact in assessing collectability of the amounts due from customer and estimated the provision for impairment.

3) Impairment loss on assets including investments in subsidiaries in consideration of decrease in the sales volume of the Company and deterioration in market condition.

As at December 31, 2017, the Company recognized impairment losses on property, plant and equipment, intangible assets, investment properties of ₩ 616,622 million (including decrease of revaluation surplus of ₩ 86,305 million), and investments in subsidiaries of ₩ 66,211 million.

Also, the Company have prompted restructure of its business (reduce, liquidate and sell business unrelated to shipbuilding and marine business) to stabilize its financial position. During the year ended December 31, 2017, the Company completed disposal of investment in DSEC Co., Ltd., and finalized disposal plan of investments in DSME Construction Co., Ltd. and Welliv Corp and others.

On June 28, 2017 and August 21, 2017, the major creditor bank's management procedure began for Shinhan Heavy Industries Co., Ltd. and Samwoo Heavy Industry Co., Ltd., the Company's subsidiaries, and the Company reclassified these subsidiaries as associates as it lost its control over them due to the agreement with its major creditor bank.

Meanwhile, the Company is consistently enhancing self-supporting efforts in accordance with the agreement with the creditor bank to perform business stabilization plan. This agreement includes new capital supports, financial structure improvement (disposal of un-core assets including Magok District, cost reduction and others) and enhancement of its competitiveness for mid/long-term period through capital injection plan and others.

The financial statements have been accounted for on the assumption that assets and liabilities can be recovered or repaid at book amounts through the normal business activities. There is a possibility that the financial condition and business performance will fluctuate greatly depending on the shipbuilding market condition. To improve financial structure, the Company and bond holders agreed to the debt restructuring that includes i) debt-to-equity swap of 50% or more of existing

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corporate bonds and CP, ii) extending the maturity and iii) decreasing interest rate for the rest of remaining bonds through bondholders' meeting and contract amendment on the terms and conditions of issuing CP during April, 2017. Accordingly, the Company is in the process of debt restructuring and debt-to-equity swap. In addition on June 28, 2017, the Creditor Financial Institutions (such as Korea Development Bank and other financial institutions) executed debt adjustments which includes debt-to-equity swap and maturity extension, and new capital support up to ₩ 2.9 trillion from KDB and KEXIM Bank is in progress (see Note 43). Meanwhile, KDB and KEXIM Bank pledged to provide new capital support to DSME until the repayment date of the remaining bonds after the debt-to-equity swap and to use the reserved portion of the new funds for remaining bonds first.

43. Debt Restructuring

Since the announcement of the "DSME Restructuring Promotion Plan" for prompt normalization of management of the Company during March, 2017, the Company agreed to the debt restructuring that includes the debt-for-equity swap, maturity extension and interest rate changes for unsecured bonds held by financial institutions, unsecured and bearer bonds (4-2, 5-2, 6-1, 6-2 and 7th) and commercial paper (CP). This debt restructuring agreement was made based on mutual consent of creditor financial institutions, resolution of the bondholders' meeting and amended CP contract.

43.1 Details of debt restructuring are as follows:

<i>(in millions of Korean won)</i>	Amount subject to debt restructuring	Debt to equity swaps	Change in terms	Others
Short-term borrowings ^{1,4,5}	₩ 1,695,039	₩ 1,529,533	₩ 165,058	₩ 448
Corporate bonds ²	1,350,000	711,066	638,934	-
Commercial papers	194,578	97,289	97,289	-
Long-term borrowings ^{3,4}	680,673	680,653	-	20
	<u>₩ 3,920,290</u>	<u>₩ 3,018,541</u>	<u>₩ 901,281</u>	<u>₩ 468</u>

¹ Short-term borrowings in foreign currencies that are subject to debt restructuring and change in terms are debt amounts as at June 29, 2017. Short-term borrowings include ₩80 billion of borrowings recognized on July 3, 2017, of which ₩64 billion was restructured during the fourth quarter of 2017. In addition, short-term borrowings include ₩86,275 million of borrowings which were taken over as the original debtor failed to repay loan regarding guarantee liabilities for subsidiaries and associates on January 31, 2018, of which debt-to-equity swap, conversion to perpetual bond, and change in terms were executed during the first quarter of 2018.

² Debt-to-equity swap of bonds was executed at August 12, 2017, December 22, 2017, and March 15, 2018. In addition, 50.4% of bonds held by other creditors were restructured (17,474,086 shares) except for the Korean Development Bank's bonds (7th bond amounting to ₩50 billion) which is subject to 100% debt to equity swap.

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³ There is a difference of ₩20 million between long-term borrowings subject to debt restructuring and debt-to-equity swap. The difference is cash repayments.

⁴ In 2017, the KEXIM's unsecured debt of ₩1,284,775 million (short-term borrowings of ₩724,042 million and long-term borrowings of ₩560,733 million) was offset by issuing the same amount of convertible bonds. During six-month periods ended June 30, 2018, the KEXIM's unsecured debt of ₩48,057 million was offset by issuing the same amount of convertible bonds. (see Note 29)

⁵ The amount has occurred due to differences in exchange rates among the date of initial recognition of the borrowings in foreign currency subject to debt restructuring, the date of debt-to-equity swap, and the period-end date of June 30, 2018.

As a result of the above-mentioned debt restructuring agreement, the Company issued new shares through a third-party allotment on June 29, 2017 (as at the date of payment) by debt-to-equity swap of creditor bank's unsecured bonds. In addition, further debt-to-equity swaps for ₩ 799,124 million of corporate bonds(1st) and CP in August 12, 2017, for ₩ 65,669 million of corporate bonds(2nd) and creditor bank in December 22, 2017, and for ₩ 13,170 million of corporate bonds(3rd) and creditor bank in March 15, 2018 were executed.

43.2 Debt-to-equity swaps and changes in terms

i) Debt to equity swaps

	Details
Number of shares	41,775,998 shares ¹
Types of share issued	Ordinary shares
Issue price	₩ 40,350
Sale restrictions	None

¹ 147,206 shares (assuming conversion rate of 50%) which was not converted to investment during the period ended June 30, 2018, were recognized as other paid-in capital.

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ii) Debt grace period

<i>(in millions of Korean won)</i>	Public offering bonds (including CP)	Unsecured borrowings
Debt in the grace period	₩ 736,223	₩ 165,059
Grace period	6 years	10 years
Payment method	3-year grace, 3-year grace repayment	5-year grace, 5-year grace repayment

iii) Reduction of interest rate and treatment of delinquent interest payment

<i>(in millions of Korean won)</i>	Public offering bonds (including CP)	Unsecured borrowings
Target bond	₩ 736,223	₩ 165,059
Effective interest rate	1%	1%
Applicable period	6 years	10 years

43.3 The effects of debt to equity swaps and debt restructuring

For the six-month period ended June 30, 2018, the Company recognized ₩10 million of gain on debt restructuring as finance income in relation to the above-mentioned debt-to-equity swaps and debt restructuring.

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44. Changes in Accounting Policies

44.1 Adoption of Korean IFRS 1109 *Financial Instruments*

As explained in Note 2, the Company has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated. The application of Korean IFRS 1109 has following impacts on the financial statements

(a) Classification and Measurement of Financial Instruments

The total impact on the Company's retained earnings due to classification and measurement of financial instruments as at January 1, 2018, is as follows:

<i>(in millions of Korean won)</i>	Notes	January 1, 2018
Reclassification of available-for-sale securities to financial assets at fair value through other comprehensive income	(ii)	11,843
Adjustments to retained earnings from adoption of Korean IFRS 1109		11,843

On the date of initial application of Korean IFRS 1109, January 1, 2018, the Company has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate Korean IFRS 1109 categories. The main effects resulting from this reclassification are as follows:

<i>(in millions of Korean won)</i>	Notes	Financial assets at Fair value through profit or loss(Financial assets at FVTPL in 2017)	Fair value through other comprehensive income (Available-for-sale financial assets in 2017)	Amortized cost (Held-to-maturity financial assets, loans and receivables in 2017)	Total
Financial assets – January 1, 2018					
Beginning balance – Korean IFRS 1039 ¹		₩ 31,377	₩ 52,085	₩ 5,277,643	₩ 5,361,105
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	(i)	12,454	(12,454)	-	-
Beginning balance - Korean IFRS 1109 ¹		₩ 43,831	₩ 39,631	₩ 5,277,643	₩ 5,361,105

¹ The beginning balance as at January 1, 2018, presented financial assets, available-for-sale financial assets, and held-to-maturity financial assets and loans and receivables at financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, amortized cost, respectively.

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The impact on these changes on the Company's equity is as follows:

<i>(in millions of Korean won)</i>	Notes	Effect on accumulated other comprehensive income	Effects on fair value through other comprehensive income reserve	Effect on retained earnings ¹
Beginning balance – Korean IFRS 1039		₩ 12,387	₩ -	₩ -
Reclassification of equity investments that are not held for trading from available-for-sale financial assets to financial assets at fair value through other comprehensive income	(ii)	(12,387)	(11,843)	11,843
		<u>(12,387)</u>	<u>12,387</u>	<u>-</u>
Beginning balance - Korean IFRS 1109		₩ -	₩ 544	₩ 11,843
		<u>-</u>	<u>544</u>	<u>11,843</u>

(i) Reclassification from available-for-sale to fair value through profit or loss

As at January 1, 2018, equity investments amounting to ₩ 12,454 million were reclassified from available-for-sale to financial assets at fair value through profit or loss. They do not meet the criteria to be classified as financial assets at amortized cost in accordance with Korean IFRS 1109, because their cash flows do not represent solely payments of principal and interest. Related accumulated other comprehensive income were not transferred from the available-for-sale financial assets to retained earnings on January 1, 2018.

(ii) Reclassification of equity investments from available-for-sale to fair value through other comprehensive income

The Company elected to present changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are not held for trading, in other comprehensive income. As a result, assets with a fair value of ₩ 39,631 million were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income. As at January 1, 2018, related accumulated other comprehensive income of ₩ 544 million will not be reclassified to profit or loss even if these assets are disposed of.

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(iii) Reclassifications of financial instruments on adoption of Korean IFRS 1109

On the date of initial application, January 1, 2018, the financial instruments of the Company with any reclassifications noted, were as follows:

(in millions of Korean won)	Measurement category		Carrying amount		
	Korean IFRS 1039	Korean IFRS 1109	Korean IFRS 1039	Korean IFRS 1109	Difference
Current financial assets					
Cash and cash equivalents	Loans and receivables	Amortized costs	₩ 160,139	₩ 160,139	₩ -
Short-term financial instruments	Loans and receivables	Amortized costs	82,504	82,504	-
Currency forward assets held for trading	Financial assets at fair value through profit or loss	Fair value through profit or loss	31,377	31,377	-
Held-to-maturity financial assets	Held-to-maturity financial assets	Amortized cost	27	27	-
Trade and other receivables	Loans and receivables	Amortized costs	443,129	443,129	-
Due from customers for contract work	Loans and receivables	Amortized costs	4,046,598	4,046,598	-
Non-current financial assets					
Long-term financial instruments	Loans and receivables	Amortized costs	₩ 414,024	₩ 414,024	₩ -
Currency forward assets held for trading	Financial assets at fair value through profit or loss	Fair value through profit or loss	-	-	-
Trade and other receivables	Loans and receivables	Amortized costs	130,917	130,917	-
Government bonds held-to-maturity	Held-to-maturity financial assets	Amortized costs	305	305	-
Listed and non-listed securities, beneficiary securities	Available-for-sale financial assets	Fair value through other comprehensive income	52,085	39,631	-
Equity investments		Fair value through profit or loss		12,454	
Current financial liabilities					
Short-term borrowings	Other financial liabilities	Amortized costs	₩ 1,950,686	₩ 1,950,686	₩ -
Currency forward liabilities held for trading	Financial liabilities at fair value through profit or loss	Fair value through profit or loss	51,504	51,504	-
Financial liabilities designated at fair value through profit or loss					
Trade and other payables	Other financial liabilities	Amortized costs	1,080,635	1,080,635	-
Due to customers for	Other financial	Amortized costs	2,378,487	2,378,487	-

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contract work	liabilities							
Current portion of long-term borrowings	Other financial liabilities	Amortized costs		435,253		435,253		-
Non-current financial liabilities								
Trade and other payables	Other financial liabilities	Amortized costs	₩	114,125	₩	114,125	₩	-
Currency forward liabilities held for trading	Financial liabilities at fair value through profit or loss	Fair value through profit or loss		263		263		-
Financial guarantee liabilities	Other financial liabilities	Amortized costs		2,369		2,369		-
Debentures	Other financial liabilities	Amortized costs		530,661		530,661		-
Long-term borrowings	Other financial liabilities	Amortized costs		638,935		638,935		-

(b) Impairment of Financial Assets

The Company has three types of financial assets subject to Korean IFRS 1109's new expected credit loss model:

- trade receivables for sales of inventory
- debt investments carried at amortized cost, and
- debt investments carried at fair value through other comprehensive income.

Upon adoption of Korean IFRS 1109, accounting policies for recognition of impairment have changed. There is no impact of the change in impairment methodology on the Company's beginning balance of retained earnings.

(i) Trade receivables

The Company applies the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables.

(ii) Debt instruments

Debt investments at amortized cost and those at fair value through other comprehensive income are considered to be low risk, and thus the provision for impairment is determined as 12 months expected credit losses. But, if the credit risk increases significantly or the credit is impaired after initial recognition, the provision for impairment is recognized at an amount equal to lifetime expected credit losses.

(c) Hedge Accounting

Consistent with prior periods, the Company has made forward exchange contracts to avoid the risk resulted from an exchange fluctuation of construction payment in foreign currencies (advanced

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received and delivery payment), and has designated forward exchange contracts as hedging instruments. In prior periods, the change in fair value related to exchange fluctuation was recognized in the statement of profit or loss and the effects upon adoption of Korean IFRS 1109 are the same. Therefore, there is no impact of the hedge accounting on the Company's beginning balance of retained earnings at the date of initial application.

The foreign exchange forward contract as at June 30, 2018 qualifies as fair value hedges under Korean IFRS 1109. The Company's risk management strategies and hedge documentation are aligned with the requirements of Korean IFRS 1109 and are thus continuously accounting for using hedging accounting.

44.2 Adoption of Korean IFRS 1115 Revenue from Contracts with Customers

As explained in Note 2, the Company has applied Korean IFRS 1115 *Revenue from Contracts with Customers* from January 1, 2018. In accordance with the transitional provisions in Korean IFRS 1115, comparative figures have not been restated. The application of Korean IFRS 1115 has impact on the financial statements as follows.

(a) In summary, the following adjustments were made to the amounts recognized in the statements of financial position at the date of initial application (January 1, 2018):

<i>(in millions of Korean won)</i>	December 31, 2017		January 1, 2018	
	(before adjustments)	Adjustments	(after adjustments)	
Trade and other receivables	₩ 574,047	₩ -	₩ 574,047	
Contract assets ^{1, 2}	-	4,346,927	4,346,927	
Due from customers for contract work ^{1, 2}	4,046,598	(4,046,598)	-	
Inventories	724,178	-	724,178	
Financial assets	878,236	-	878,236	
Other ¹	4,799,685	(97,738)	4,701,947	
Total assets	11,022,744	202,591	11,225,335	
Trade and other payables	1,194,760	-	1,194,760	
Contract liabilities ¹	-	2,071,308	2,071,308	
Due to customers for contract work ^{1, 2}	2,378,487	(2,378,487)	-	
Provisions ²	677,433	457,692	1,135,125	
Financial liabilities	3,649,062	-	3,649,062	
Other ¹	378,986	(3)	378,983	
Total liabilities	8,278,728	150,510	8,429,238	
Retained earnings ²	(777,526)	63,923	(713,603)	
Other	3,521,542	(11,842)	3,509,700	
Total equity	₩ 2,744,016	₩ 52,081	₩ 2,796,097	

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¹ Presentation of contract assets and contract liabilities

As at January 1, 2018, the Company has also voluntarily changed the presentation of accounts in the statements of financial position to reflect the terminology of Korean IFRS 1115:

- As at January 1, 2018, due from customers for contract work amounting to ₩ 4,345,832 million were reclassified to contract assets.
- As at January 1, 2018, prepaid expenses amounting to ₩ 97,738 million in relation to broker commission were reclassified to contract assets.
- As at January 1, 2018, due to customers for contract work amounting to ₩ 2,071,306 million were reclassified to contract liabilities.
- As at January 1, 2018, advance received amounting to ₩ 2 million were reclassified to contract liabilities.

² Significant financing component and provision for construction loss

Under previous standard of revenue, financing costs were included in the measurement of provision for construction loss since financing costs satisfy the definition of contract costs. But under Korean IFRS 1115, the Company adjusts significant financing component at contract earnings, and measures provision for construction loss by excluding the financing costs from the contract costs. Accordingly, provision for construction loss decreased by ₩ 148,724 million and the contract assets decreased by ₩ 96,644 million were lowered respectively. The retained earnings increased by ₩ 52,080 million as a consequence. Meanwhile, provision for construction loss, which was adjusted at due from customers for contract work or due to customers for contract work under previous standard of revenue, was reclassified to provision.

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(b) Financial statement line items affected by the adoption of the new rules in the current period are as follows:

Statement of financial position

<i>(in millions of Korean won)</i>	Reported amount¹		Adjustments	Amount before application of Korean IFRS 1115	
Trade and other receivables	₩	530,138	₩	-	₩ 530,138
Contract assets		3,817,556		(3,817,556)	-
Due from customers for contract work		-		3,749,303	3,749,303
Inventories		1,383,588		-	1,383,588
Financial assets		822,906		-	822,906
Other		4,446,163		68,610	4,514,773
Total assets		11,000,351		357	11,000,708
Trade and other payables		906,136		-	906,136
Contract liabilities		1,892,535		(1,892,535)	-
Due to customers for contract work		-		2,370,857	2,370,857
Provisions		1,010,757		(397,173)	613,584
Financial liabilities		3,344,708		-	3,344,708
Other		452,060		59	452,119
Total liabilities		7,606,196		81,208	7,687,404
Retained earnings		187,989		(80,851)	107,138
Other		3,206,166		-	3,206,166
Total equity	₩	3,394,155	₩	(80,851)	₩ 3,313,304

Statement of profit or loss and total comprehensive income

<i>(in millions of Korean won)</i>	Reported amount¹		Adjustments	Amount before application of Korean IFRS 1115	
Sales	₩	4,569,134	₩	-	₩ 4,569,134
Cost of sales ¹		4,005,072		106,052	4,111,124
Gross profit		564,062		(106,052)	458,010
Selling, administrative, and research and development expenses		4,492		-	4,492
Operating profit		559,570		(106,052)	453,518
Finance profit and loss ¹		(25,515)		65,026	39,511
Profit and loss from investment in associates and joint ventures		-		-	-
Foreign exchange gain and loss ¹		29,740		12,255	41,995

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Other non-operating profit and loss	12,073	-	12,073
Profit before income tax expense	575,868	(28,771)	547,097
Income tax expense	14,052	-	14,052
Profit for the period	₩ 561,816	₩ (28,771)	₩ 533,045

¹ Presentation of financing costs

Under previous standard of revenue, the Company classified financing costs as cost of sale since financing costs satisfy the definition of contract costs. But under Korean IFRS 1115, the Company judged that financing costs shall not be included in contract costs and ship under construction does not satisfy the definition of a qualifying asset under Korean IFRS 1023. Therefore, the Company classified financing costs as a finance loss. Due to this effect, if the Company does not apply Korean IFRS 1115, cost of sales will increase and finance cost will decrease.

Statement of cash flows

<i>(in millions of Korean won)</i>	Reported amount	Adjustments	Amount before application of Korean IFRS 1115
Profit for the period	₩ 561,816	₩ (28,771)	₩ 533,045
Adjustments	(53,802)	(77,281)	(131,083)
Changes in operating assets and liabilities	1,029	106,052	107,081
Cash generated from operations	₩ 509,043	₩ -	₩ 509,043

Upon application of Korean IFRS 1115, cash flows have changed compared to cash flows prepared under previous standard as a result of an increase in profit for the period of ₩ 28,771 million. However, due to increase in adjustments without cash flows of ₩ 77,281 million and a decrease in operating assets and liabilities of ₩ 106,052 million, net cash generated from operations is identical to that of the previous standard.

45. Events After the Reporting Period

The Company sold its subsidiary, DMHI (DW Mangalia Heavy Industries S.A) for USD 21,100 thousand to DAMEN, Company in Netherland, on July 21, 2018.