

Daewoo Shipbuilding & Marine Engineering Co., Ltd.

Separate Interim Financial Statements

June 30, 2019 and 2018

(With Independent Auditor's Review Report Thereon)

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Independent Auditors' Review Report

(Based on 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 as at June 30, 2019, and the related separate interim statements of income and comprehensive income for the three-month and six-month period ended June 30, 2019, and separate interim statements of changes in equity and cash flows for the six-month period ended June 30, 2019, 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

The separate interim statements of income and comprehensive income for the three-month and six-month period ended June 30, 2018, and separate interim statements of changes in equity and cash flows for the six-month period then ended, presented for comparative purpose, were reviewed by Samil PricewaterhouseCoopers in accordance with Korean IFRS 1034 Interim Financial Reporting, whose review report dated August 14, 2018 expressed an unmodified review opinion.

Moreover, the separate statement of financial position as at December 31, 2018 and the related separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by Samil PricewaterhouseCoopers in accordance with Korean Standards on Auditing, whose report dated March 21, 2019 expressed an unmodified opinion. The accompanying separate statement of financial position as at December 31, 2018, presented for comparative purposes, is not different, in all material respects, from the above audited separate statement of financial position.

August 12, 2019



Seoul, Korea

This report is effective as of August 12, 2019, the review report date. Accordingly, certain subsequent events or circumstances may have occurred between the review report date and the time this review report is read. Such events and circumstances could significantly affect the accompanying separate financial statements and may result in modifications to this review report.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.

Separate Interim Financial Statements

For the six-month periods ended June 30, 2019 and 2018

The accompanying separate interim financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the Company.

Sung Geun Lee
Chief Executive Officer
Daewoo Shipbuilding & Marine Engineering Co., Ltd.

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Daewoo Shipbuilding & Marine Engineering Co., Ltd.

Separate Interim Statements of Financial Position

As at June 30, 2019 and December 31, 2018

	Notes	<i>Millions of Korean Won</i>	
		June 30, 2019 (Unaudited)	December 31, 2018
ASSETS			
Current assets :			
Cash and cash equivalents	6,7,38	1,387,135	325,732
Short-term financial instruments	6,8,38	73,675	71,778
Financial assets at fair value through profit or loss	4,5,6,9,18,28,38	-	382
Current portion of held-to-maturity financial assets	6,9	1	1
Trade and other receivables	6,9,38,39	741,142	711,270
Contract assets	4,6,10,39	3,065,457	4,349,897
Current firm commitment assets	28	42,893	13,897
Current portion of currency forward assets	4,5,6,28,38	18,709	12,519
Inventories	11	1,301,865	1,333,868
Current tax assets		1,963	-
Other current assets	12,46	655,412	496,370
Non-current assets held for sale	13	-	12,914
Total current assets		7,288,252	7,328,628
Non-current assets :			
Long-term financial instruments	6,8	415,775	415,652
Financial assets at fair value through profit or loss	4,5,6,9,18,38	28,521	20,199
Held-to-maturity financial assets	6,9	37	37
Financial assets at fair value through other comprehensive income	4,5,6,9	18,692	20,087
Investments in subsidiaries	14	745	746
Investments in associates and joint ventures	15	14,689	11,935
Long-term trade and other receivables	4,5,9,38,39	93,963	195,913
Firm commitment assets	28	66,900	8,853
Currency forward assets	4,5,6,28,39	3,006	7,841
Property, plant and equipment	16,18	3,666,988	3,689,951
Right-of-use assets	17,46	66,544	-
Investment properties	18,19	7,736	7,795
Intangible assets	20	17,511	17,009
Other non-current assets	12	9,952	12,130
Total other non-current assets		4,411,059	4,408,148
Total assets		11,699,311	11,736,776

See the accompanying notes to the separate interim financial statements.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.

Separate Interim Statements of Financial Position

As at June 30, 2019 and December 31, 2018

		<i>Millions of Korean Won</i>	
		June 30, 2019	December 31,
		(Unaudited)	2018
LIABILITIES AND SHAREHOLDERS' EQUITY	Notes		
Current liabilities :			
Short-term borrowings	4,5,18,23,38,45	1,171,636	1,414,638
Financial liabilities at fair value through profit or loss	4,5,6,28,38	2,531	89
Trade and other payables	6,21,38	1,070,279	1,075,880
Current portion of long-term borrowings	6,18,23,38,45	203,882	197,061
Current financial guarantee liabilities	4,5,6,38	68	-
Current portion of provisions		50,000	-
Current portion of lease liabilities	17,38,46	57,490	-
Current firm commitment liabilities	28	4,753	7,561
Current portion of currency forward liabilities	4,5,6,28,38	98,355	38,407
Contract liabilities	10,28,39	2,039,883	1,875,347
Provisions	26	274,349	558,740
Other current liabilities	24	120,332	125,093
Total current liabilities		5,093,558	5,292,816
Non-current liabilities :			
Debentures	6,22,38,45	600,857	575,561
Long-term borrowings	6,18,23,38,45	968,556	935,902
Long-term trade and other payables	6,21,38	56,808	66,224
Net defined benefit liabilities and other long-term employee nebenefits	25	56,825	162,484
Provisions	26,40	705,182	860,188
Financial guarantee liabilities	4,5,6,38	139	480
Lease liabilities	17,38	12,238	24,145
Firm commitment liabilities	28	2,889	4,494
Currency forward liabilities	4,5,6,28	62,016	7,370
Deferred tax liabilities	27	75,506	75,346
Total non-current liabilities		2,541,016	2,712,194
Total liabilities		7,634,574	8,005,010
Shareholders' equity :			
Share capital	29,38,45	541,029	541,029
Other contributed capital	31,38,45	(257)	(257)
Hybrid bonds	31,38,45	2,332,832	2,332,832
Components of other capital	31	318,017	316,648
Retained earnings	30,45	873,116	541,514
Total shareholders' equity		4,064,737	3,731,766
Total liabilities and shareholders' equity		11,699,311	11,736,776

See the accompanying notes to the separate interim financial statements.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.

Separate Interim Statements of Income

For Three-Month and Six-Month Periods Ended June 30, 2019 and 2018

		<i>Millions of Korean Won</i>			
		2019		2018	
		(Unaudited)		(Unaudited)	
	Notes	Three months	Six months	Three months	Six months
Sales	28,38,39,43	2,156,688	4,197,628	2,311,969	4,569,133
Cost of sales	37,38,39,46	2,002,554	3,778,058	2,022,076	4,005,072
Gross profit	43	154,134	419,570	289,893	564,061
Selling expenses	33,37,38	11,724	23,294	16,644	31,104
Administrative expenses	33,37,38	(8,855)	28,163	(13,286)	12,694
Research and development expenses	37	15,814	27,935	12,715	25,433
Impairment loss (reversal of impairment loss)	4,6	(38,642)	(38,074)	31,784	(64,740)
Operating profit		174,093	378,252	242,036	559,570
Non-operating income and expense:					
Interest income	6,34,38	27,535	43,014	10,974	16,044
Financial income	6,34,38	2,453	2,840	37,180	37,446
Financial expenses	6,34,38	41,237	83,299	41,220	79,005
Share of profit in subsidiaries, associates and joint ventures	14,15	-	-	-	-
Foreign exchange gains	4,5,6,35	113,661	199,635	172,485	214,083
Foreign exchange losses	4,5,6,35	94,619	140,348	93,236	184,343
Other non-operating income	6,28,36	109,697	188,773	68,243	124,017
Other non-operating expenses	6,28,36	160,481	262,356	89,848	133,007
Other impairment loss (reversal of other impairment loss)	4,6	(563)	(6,378)	(19,056)	(21,064)
Profit before income tax		131,665	332,889	325,670	575,869
Income tax expense	27	-	160	4,301	14,052
Profit for the period		131,665	332,729	321,369	561,817
<i>Korean Won</i>					
Earnings per share:	32				
Basic earnings per share		1,174	2,994	2,943	5,143
Diluted earnings per share		798	2,016	1,643	3,074

See the accompanying notes to the separate interim financial statements.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.

Separate Interim Statements of Comprehensive Income

For Three-Month and Six-Month Periods Ended June 30, 2019 and 2018

		<i>Millions of Korean Won</i>			
		2019		2018	
		(Unaudited)		(Unaudited)	
Notes		Three months	Six months	Three months	Six months
	Profit for the period	131,665	332,729	321,368	561,817
	Other comprehensive income (loss) for the period				
	Items that will not be reclassified subsequently to profit or loss :				
	Remeasurements of net defined benefit liabilities	(203)	(1,127)	(525)	(1,597)
	Gain(loss) on revaluation of property, plant and equipment	-	-	-	-
	Gain (loss) on valuation of financial assets at fair value though other comprehensive income	1,346	1,368	626	(2,921)
	Total comprehensive income for the period	<u>132,808</u>	<u>332,970</u>	<u>321,469</u>	<u>557,299</u>

See the accompanying notes to the separate interim financial statements.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.

Separate Interim Statements of Changes in Equity

For Six-Month Periods Ended June 30, 2019 and 2018

Millions of Korean Won

	Other contributed capital			Components of other capital			Retained earnings (accumulated deficit)	Total	
	Capital	Other capital	Treasury stock	Hybrid bond	Gain(loss) on valuation of available-for-sale financial assets	Gain(loss) on valuation of financial assets at FVTOCI			Revaluation surplus of property, plant and equipment
Balance at January 1, 2018	538,281	351,885	(726)	2,284,775	12,387	-	334,939	(777,526)	2,744,015
Effect of changes in accounting policies	-	-	-	-	(12,387)	544	-	63,923	52,080
Adjusted balance at January 1, 2018	538,281	351,885	(726)	2,284,775	-	544	334,939	(713,603)	2,796,095
Transfer of capital surplus to accumulated deficit	-	(341,349)	-	-	-	-	-	341,349	-
Debt to equity swap	2,747	10,431	-	-	-	-	-	-	13,178
Issuance of permanent convertible notes	-	(20,498)	-	48,057	-	-	-	-	27,559
Gain on equity instrument at fair value through other comprehensive income	-	-	-	-	-	-	-	23	23
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	-	561,817	561,817
Other comprehensive income	-	-	-	-	-	(2,921)	-	(1,597)	(4,518)
Balance at June 30, 2018	<u>541,029</u>	<u>469</u>	<u>(726)</u>	<u>2,332,832</u>	<u>-</u>	<u>(2,377)</u>	<u>334,939</u>	<u>187,989</u>	<u>3,394,155</u>
Balance at January 1, 2019	541,029	469	(726)	2,332,832	-	(8,052)	324,700	541,514	3,731,766
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	-	332,729	332,729
Other comprehensive income	-	-	-	-	-	1,369	-	(1,127)	242
Balance at June 30, 2019	<u>541,029</u>	<u>469</u>	<u>(726)</u>	<u>2,332,832</u>	<u>-</u>	<u>(6,683)</u>	<u>324,700</u>	<u>873,116</u>	<u>4,064,737</u>

See the accompanying notes to the separate interim financial statements.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.

Separate Interim Statements of Cash Flows

For Six-Month Periods Ended June 30, 2019 and 2018

	Notes	<i>Millions of Korean Won</i>	
		2019 (Unaudited)	2018 (Unaudited)
Cash Flows from Operating Activities :			
Cash generated from operation activities	41,46	1,409,706	509,044
Dividends received		243	7,215
Interests received		14,056	17,171
Interests paid		(47,904)	(56,197)
Income tax received (paid)		(944)	3,675
Net cash provided by operating activities		1,375,157	480,908
Cash Flows from Investing Activities :			
	42		
Cash inflows from investing activities:			
Decrease in short-term financial instruments		65,007	54,160
Decrease in short-term loans receivable		-	15,428
Decrease in long-term financial instruments		316,554	-
Disposal of held-to-maturity financial assets		-	21
Disposal of financial assets at fair value through profit or loss		29	-
Disposal of financial assets at fair value through other comprehensive income		10	6,208
Disposal of investment in subsidiaries		-	-
Disposal of non-current assets held for sale		10,331	38,295
Disposal of PP&E and intangible assets		1,846	799
Disposal of other investments		7,408	-
		401,185	114,911
Cash outflows from investing activities:			
Increase in short-term financial instruments		66,904	772
Increase in long-term financial instruments		316,678	328
Acquisition of financial instruments at fair value through profit or loss		8,108	6,250
Acquisition of held-to-maturity financial assets		-	19
Increase in long-term loans receivable		-	2,235
Acquisition of PP&E and intangible assets		44,020	55,172
Acquisition of other investments		33	43
		(435,743)	(64,819)
Net cash provided by (used in) investing activities		(34,558)	50,092

See the accompanying notes to the separate interim financial statements.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.

Separate Interim Statements of Cash Flows

For Six-Month Periods Ended June 30, 2019 and 2018

	Notes	<i>Millions of Korean Won</i>	
		2019 (Unaudited)	2018 (Unaudited)
Cash Flows from Financing Activities :	42		
Cash inflows from financing activities:			
Proceeds from short-term borrowings		-	84,897
Reversal of payment of share issue cost		-	3
		-	84,900
Cash outflows from financing activities:			
Repayment of short-term borrowings		252,564	442,486
Repayment of current portion of long-term borrowings		4	4
Repayment of current portion of lease liabilities		25,120	-
Repayment of finance lease obligations		-	8,629
Payment of share issue cost		-	29
		(277,688)	(451,148)
Net cash provided by (used in) financing activities		(277,688)	(366,248)
Net increase in cash and cash equivalents		1,062,911	164,752
Cash and cash equivalents at the beginning of the period		325,732	160,139
Effects of exchange rate changes on the cash and cash equivalents		(1,508)	242
Cash and cash equivalents at the end of the period	7	1,387,135	325,133

See the accompanying notes to the separate interim financial statements.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.
Notes to the Separate Interim Financial Statements
June 30, 2019 and 2018 (Unaudited), and December 31, 2018

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, 2019, 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, 2019, have been prepared in accordance with Korean IFRS 1034, Interim Financial Reporting and provide less information as compared with its annual financial statements.

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.

2.2 New and Amended Standards Adopted by the Company

The significant accounting policies applied in the preparation of these interim financial statements have been consistently applied to all periods presented unless otherwise specified.

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019.

1) Enactment of Korean IFRS 1116 Leases

The Company has applied Korean IFRS 1116 Leases for annual periods beginning on or after January 1, 2019. In accordance with the transition provisions in Korean IFRS 1116, comparative figures have not been restated. See Note 46 for further details on the impact of the application of the standard.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.
Notes to the Separate Interim Financial Statements
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2) Amendments to Korean IFRS 1109 Financial Instruments

The amendments made to Korean IFRS 1109 Financial Instruments enable entities to measure certain pre-payable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in de-recognition, a modification gain or loss shall be recognized in profit or loss. The amendments do not have a significant impact on the interim financial statements.

3) Amendments to Korean IFRS 1019 Employee Benefits

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendments do not have a significant impact on the interim financial statements.

4) Amendments to Korean IFRS 1028 Investments in Associates and Joint Ventures

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The amendments do not have a significant impact on the interim financial statements.

5) Enactment to Interpretation of Korean IFRS 2123 Uncertainty over Income Tax Treatments

The enactment explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgment or estimate is required to be reassessed. The enactment does not have a significant impact on the interim financial statements.

6) Annual Improvements to Korean IFRS 2015 – 2017 Cycle

- Korean IFRS 1103 Business Combination

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation.

- Korean IFRS 1111 Joint Agreements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured.

Daewoo Shipbuilding & Marine Engineering Co., Ltd.
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- Paragraph 57A of Korean IFRS 1012 Income Tax

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

- Korean IFRS 1023 Borrowing Costs

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings. These amendments will be applied to borrowing costs incurred on or after the beginning of the first annual reporting period.

Annual improvements to Korean IFRS 2015 – 2017 cycle do not have a significant impact on the interim financial statements.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgment in applying the Company's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgment and assumptions of certain items are included in relevant notes.

Significant accounting estimates and assumptions applied in the preparation of these interim financial statements are the same as those applied to the financial statements for the year ended December 31, 2018.

3.1 Impairment of Non-financial Assets

At the end of the reporting period, the Company assesses its non-financial assets to determine whether there is any indication of impairment. Intangible assets with indefinite useful lives are tested for impairment at least annually. Other non-financial assets are tested for impairment whenever there is an indication that the carrying amount will not be recoverable. In assessing value in use, management estimates future expected cash flows derived from the relevant asset or cash-generating unit and applies an appropriate discount rate to compute the present value.

3.2 Deferred Tax Assets

The Company reviews the book amount of deferred tax assets at the end of each reporting period, and

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decrease the carrying value of deferred tax assets when it is not probable to generate sufficient taxable profit to recover all or part of deferred tax asset.

3.3 Fair Value of Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 5).

3.4 Impairment of Financial Assets

The provisions for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgment 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 (Note 4).

3.5 Net Defined Benefit Liability and Other Long-term Employee Benefits

The present value of net defined benefit liability and other long-term employee benefits depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 25).

3.6 Revenue Recognition

1) Revenue Recognition based on the Input Method and Measuring the Progress of Contract

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).

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.

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As at June 30, 2019, 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 ₩514,227 million.

3) 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.

4) 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, 2019, the maximum amount for liquidated damages arising from delays caused by the Company is estimated to be ₩129,016 million. The best estimate of liquidated damages, which arise from delay caused by the Company, that is likely payable by the Company is ₩87,340 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.

5) 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'.

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4. Financial Risk Management

4.1 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), 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.

1) Market Risk Management

1-1) 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, 2019 and December 31, 2018:

(June 30, 2019)

<i>In millions of Korean won, thousands of USD</i>						
	Average contracted exchange rate	Sell Amounts		Buy Amounts		Fair value assets (liabilities)
For fair value hedging						
Sell USD	1,110.12	USD	4,754,944	KRW	5,278,556	(138,658)
For trading						
Sell USD	1,127.20	USD	96,000	KRW	108,211	(2,531)
Total		USD	4,850,944	KRW	5,386,767	(141,189)

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(December 31, 2018)

<i>In millions of Korean won, thousands of USD</i>						
	Average contracted exchange rate	Sell	Amounts	Buy	Amounts	Fair value assets (liabilities)
For fair value hedging						
Sell USD	1,093.28	USD	3,738,840	KRW	4,087,603	(25,418)
For trading						
Sell USD	1,114.93	USD	142,083	KRW	158,412	294
Total		USD	3,880,923	KRW	4,246,015	(25,124)

1-2) 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, 2019, 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 ₩1 million (2018: ₩1 million) before considering tax.

1-3) Interest risk

The interest rate risk mainly arises through floating borrowings. The Company is exposed to interest rate risk since it has borrowings issued at floating rates. The interest rate risk is managed through the interest rate swap contract if the interest rate risk hedging is required.

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 9) 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 ₩43,574 million (2018: ₩62,886 million) (Notes 18 and 38).

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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.

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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5. Fair Value

5.1 Fair Value Hierarchy

Items that are measured at fair value or for which the fair value is disclosed are categorized by the fair value hierarchy levels, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

Fair value hierarchy classifications of the financial instruments that are measured at fair value as at June 30, 2019 and December 31, 2018, are as follows:

(June 30, 2019)

<i>In millions of Korean won</i>				
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Beneficiary certificates	3,654	-	-	3,654
Equity investments	-	24,867	-	24,867
Derivative financial assets				
Derivative instrument for hedging	-	21,713	-	21,713
Financial assets at fair value through other comprehensive income				
Listed securities	1	-	-	1
Non-listed securities	-	13,208	5,484	18,692
Asset total	3,655	59,788	5,484	68,927
Financial liabilities at fair value through profit or loss				
Derivative held for trading	-	2,531	-	2,531
Derivative financial liabilities				
Derivative instrument for hedging	-	160,371	-	160,371
Liabilities total	-	162,902	-	162,902

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<i>In millions of Korean won</i>				
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Derivative held for trading	-	382	-	382
Beneficiary certificates	3,592	-	-	3,592
Equity investments	-	16,607	-	16,607
Derivative financial assets				
Derivative instrument for hedging	-	20,360	-	20,360
Financial assets at fair value through other comprehensive income				
Listed securities	8	-	-	8
Non-listed securities	-	11,832	8,247	20,079
Assets total	3,600	49,181	8,247	61,028
Financial liabilities at fair value through profit or loss				
Derivative held for trading	-	89	-	89
Derivative financial liabilities				
Derivative instrument for hedging	-	45,778	-	45,778
Liabilities total	-	45,867	-	45,867

5.2 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.

1) There were no transfers between Levels 1 and 2 for recurring fair value measurements during the six-month period ended June 30, 2019.

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2) Changes in Level 3 for recurring fair value measurements for the six-month period ended June 30, 2019 and for the year ended December 31, 2018, are as follows:

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>					
	Beginning balance	Purchases (Disposals)	Transfer (*)	Valuation	Ending balance
Financial assets at fair value through other comprehensive income					
Non-listed securities	8,247	(10)	(2,754)	-	5,483

(*) The Company transferred the investment from financial assets at FVOCI to investments in associates as the Company decided that it has significant influence over KC LNG Tech Co., Ltd.

(Year ended December 31, 2018)

<i>In millions of Korean won</i>					
	Beginning balance	Purchases (Disposals)	Transfer (*)	Valuation	Ending balance
Financial assets at fair value through other comprehensive income					
Non-listed securities	20,872	(4,679)	(7,798)	(148)	8,247

(*) As the measurement method for non-listed securities was changed from the cost method to fair valuation, the relevant amount has been transferred to Level 3 for the year ended December 31, 2018. Additionally, non-listed securities classified as Level 3 was transferred to Level 2 during the prior year.

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6. Financial Instruments by Category

6.1 Financial Assets

Categorizations of financial assets as at June 30, 2019 and December 31, 2018, are as follows:

(June 30, 2019)

<i>In millions of Korean won</i>						
	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	-	-	1,387,135	-	1,387,135	1,387,135
Short- and long-term financial assets	-	-	489,450	-	489,450	489,450
Financial assets at fair value through profit or loss (*)	28,521	-	-	-	28,521	28,521
Held-to-maturity financial assets	-	-	38	-	38	38
Financial assets at fair value through other comprehensive income	-	18,693	-	-	18,693	18,693
Trade and other receivables	-	-	835,106	-	835,106	835,106
Contract assets	-	-	3,065,457	-	3,065,457	3,065,457
Currency forward assets	-	-	-	21,713	21,713	21,713
Total	28,521	18,693	5,777,186	21,713	5,846,113	5,846,113

(*) Financial assets at fair value through profit or loss consist of equity investments and beneficiary certificates.

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(December 31, 2018)

<i>In millions of Korean won</i>						
	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	-	-	325,732	-	325,732	325,732
Short- and long-term financial assets	-	-	487,430	-	487,430	487,430
Financial assets at fair value through profit or loss (*)	20,582	-	-	-	20,582	20,582
Held-to-maturity financial assets	-	-	38	-	38	38
Financial assets at fair value through other comprehensive income	-	20,087	-	-	20,087	20,807
Trade and other receivables	-	-	907,182	-	907,182	907,182
Contract assets	-	-	4,349,897	-	4,349,897	4,349,897
Currency forward assets	-	-	-	20,360	20,360	20,360
Total	20,582	20,087	6,070,279	20,360	6,131,308	6,132,028

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

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

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6.2 Financial liabilities

Categorizations of financial liabilities as at June 30, 2019 and December 31, 2018, are as follows:

(June 30, 2019)

<i>In millions of Korean won</i>					
	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	-	2,344,073	-	2,344,073	2,347,782
Debentures	-	600,857	-	600,857	611,568
Financial liabilities at fair value through profit or loss (*1)	2,531	-	-	2,531	2,531
Trade and other payables	-	1,127,088	-	1,127,088	1,127,088
Currency forward liabilities	-	-	160,371	160,371	160,371
Financial guarantee liabilities (*2)	-	207	-	207	207
Lease liabilities	-	69,728	-	69,728	69,728
Total	2,531	4,141,953	160,371	4,304,855	4,319,275

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

(*2) As described in Notes 18 and 38, the Company recognized expected payment guarantees amount, based on the agreement provided to the related parties as financial guarantee liabilities.

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(December 31, 2018)

<i>In millions of Korean won</i>					
	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	-	2,547,600	-	2,547,600	2,549,429
Debentures	-	575,561	-	575,561	579,609
Financial liabilities at fair value through profit or loss (*1)	89	-	-	89	89
Trade and other payables	-	1,142,104	-	1,142,104	1,142,104
Currency forward liabilities	-	-	45,778	45,778	45,778
Financial guarantee liabilities (*2)	-	480	-	480	480
Finance lease liabilities	-	24,145	-	24,145	24,145
Total	89	4,289,890	45,778	4,335,757	4,341,634

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

(*2) As described in Notes 18 and 38, 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.

6.3 Net Gains or Losses by Category of Financial Instruments (Before Income Tax Effect)

Net gains or net losses on each category of financial instruments for the six-month periods ended June 30, 2019 and 2018, are as follows:

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1) Financial assets

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>					
	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
Interest income	-	-	43,014	-	43,014
Dividend income	-	134	-	-	134
Reversal of impairment loss	-	-	44,452	-	44,452
Gains on foreign currency translation, net	-	-	27,635	-	27,635
Gains on foreign currency transaction, net	-	-	91,446	-	91,446
Gains on valuation of foreign exchange forward contracts, net	-	-	-	16,560	16,560
Gains on foreign exchange forward transaction, net	137	-	-	35	172
Gains on valuation of available- for-sale financial assets (other comprehensive income)	-	1,369	-	-	1,369
Gains on valuation of financial assets at fair value through profit or loss	242	-	-	-	242
Gains on disposal of available- for-sale financial assets	1	-	-	-	1
Total	380	1,503	206,547	16,595	225,025

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(Six-month period ended June 30, 2018)

<i>In millions of Korean won</i>					
	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
Interest income	-	-	16,044	-	16,044
Dividend income	-	7,106	-	-	7,106
Reversal of impairment loss	-	-	85,804	-	85,804
Gains on foreign currency translation, net	-	-	94,007	-	94,007
Gains on foreign currency transaction, net	-	-	17,353	-	17,353
Loss on valuation of foreign exchange forward contracts, net	(4,373)	-	-	(31,938)	(36,311)
Gains(losses) on foreign exchange forward transaction, net	1,281	-	-	(1,222)	59
Losses on valuation of financial assets at fair value through other comprehensive income	-	(4,029)	-	-	(4,029)
Losses on valuation of financial assets at fair value through profit or loss	(2,111)	-	-	-	(2,111)
Total	(5,203)	3,077	213,208	(33,160)	177,922

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2) Financial liabilities

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>				
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized costs	Derivative financial liabilities for hedging	Total
Interest expenses	-	(83,299)	-	(83,299)
Losses on foreign currency translation, net	-	(51,635)	-	(51,635)
Losses on foreign currency transaction, net	-	(8,159)	-	(8,159)
Losses on valuation of foreign exchange forward contracts, net	(2,531)	-	(153,992)	(156,523)
Losses on foreign exchange forward transaction, net	(31,385)	-	(45,111)	(76,496)
Reversal of financial guarantee liabilities	-	273	-	273
Total	(33,916)	(142,820)	(199,103)	(375,839)

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(Six-month period ended June 30, 2018)

<i>In millions of Korean won</i>				
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized costs	Derivative financial liabilities for hedging	Total
Interest expenses	-	(79,006)	-	(79,006)
Loss on foreign currency translation, net	-	(84,256)	-	(84,256)
Gains on foreign currency transaction, net	-	2,636	-	2,636
Losses on valuation of foreign exchange forward contracts, net	(5,864)	-	(66,855)	(72,719)
Losses on transactions of foreign exchange forward contracts, net	(5,575)	-	(2,505)	(8,080)
Gains on valuation of financial liabilities at fair value through profit or loss	776	-	-	776
Reversal of financial guarantee liabilities	-	30,222	-	30,222
Gains on debt restructuring	-	10	-	10
Total	(10,663)	(130,394)	(69,360)	(210,417)

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7. 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, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>		
	June 30, 2019	December 31, 2018
Financial institution deposits	1,387,135	325,732

8. Restricted or Pledged Financial Assets

The restricted or pledged financial assets as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>			
	June 30, 2019	December 31, 2018	Description
Short-term financial asset	73,675	71,778	Pledged as collaterals for performance guarantee and others
Long-term financial asset	415,775	415,652	Pledged as collaterals for performance guarantee and others
Total	489,450	487,430	

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9. Financial Assets

9.1 Financial Assets at Fair Value through Profit or Loss

1) Financial assets at fair value through profit or loss as at June 30, 2019 and December 31, 2018, include the following classes of financial assets:

<i>In millions of Korean won</i>				
	June 30, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
Currency forward assets held for trading	-	-	382	-
Beneficiary certificates	-	3,654	-	3,592
Equity investments	-	24,867	-	16,607
Total	-	28,521	382	20,199

2) Amounts recognized in profit or loss for the six-month periods ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>		
	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
Gains(losses) on currency forward assets held for trading, net	138	(3,092)
Losses on fair value valuation through profit or loss	-	(2,111)
Gains on equity investments	151	-
Gains on beneficiary certificates	91	-
Total	380	(5,203)

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9.2 Financial Assets at Fair Value through Other Comprehensive Income

Details of equity investments at fair value through other comprehensive income as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>		
	June 30, 2019	December 31, 2018
Listed securities	1	8
Non-listed securities	18,692	20,079
Total	18,693	20,087

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.

9.3 Held-to-maturity Financial Assets

1) Details of held-to-maturity financial assets as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>				
	June 30, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
Government and public bonds	1	37	1	37

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2) Movements in held-to-maturity financial assets for the six-month period ended June 30, 2019 and for the year ended December 31, 2018, are as follows:

<i>In millions of Korean won</i>				
	June 30, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
Beginning balance	1	37	27	304
Purchases	-	-	-	19
Disposals	-	-	(27)	(285)
Transfer	-	-	1	(1)
Ending balance	1	37	1	37

9.4 Trade Receivables and Other Financial Assets at Amortized Cost

1) Trade receivables and its provisions for impairment as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>				
	June 30, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
Receivables from construction contracts	734,843	700,142	676,099	698,725
Less: Provision for impairment	(18,657)	(685,278)	(18,481)	(685,612)
Receivables from construction contracts (net)	716,186	14,864	657,618	13,113

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days, and therefore, are all classified as current asset. Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognized at fair value.

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2) Other financial assets at amortized costs as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>				
	June 30, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
Loans	143,883	150,846	143,883	150,846
Less: Provision for impairment	(143,883)	(144,015)	(143,883)	(144,015)
Loans, net	-	6,831	-	6,831
Other receivable	33,049	143,650	62,709	145,741
Less: Provision for impairment	(8,957)	(81,005)	(9,299)	(86,837)
Other receivable, net	24,092	62,645	53,410	58,904
Accrued income	29,459	8	28,836	7
Less: Provision for impairment	(28,595)	(6)	(28,594)	(6)
Accrued income, net	864	2	241	1
Deposits (*)	-	26,516	-	133,958
Less: Provision for impairment	-	(16,895)	-	(16,894)
Deposits, net	-	9,621	-	117,064
Total	24,956	79,099	53,651	182,800

(*) Includes ₩107.5 billion paid to Defense Acquisition Program Administration (DAPA) as deposit of contract performance guarantee during the prior year.

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10. Contract Assets and Liabilities

10.1 Details of contract assets and liabilities as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>		
	June 30, 2019	December 31, 2018
Contract assets		
Due from customers for contract work	3,065,502	4,445,022
Loss allowance	(45)	(95,125)
Total	3,065,457	4,349,897
Contract liabilities		
Due to customers for contract work	1,803,230	1,660,814
Advance received	236,653	214,533
Total	2,039,883	1,875,347

10.2 Revenue Recognized in relation to Contract Liabilities

Revenue recognized in relation to contract liabilities for the six-month period ended June 30, 2019, are as follows:

<i>In millions of Korean won</i>	
	Six-month period ended June 30, 2019
Revenue recognized that was included in the contract liability balance at the beginning of the year	993,034
Revenue recognized from performance obligations satisfied in prior year (*)	1,186

(*) Although the Company fulfilled its obligations in prior year, the Company recognized revenue during current period after satisfying the revenue recognition requirements.

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10.3 Unsatisfied Construction Contracts

Unsatisfied performance obligations resulting from fixed-price construction contracts are as follows:

<i>In millions of Korean won</i>		
	June 30, 2019	December 31, 2018
Aggregate amount of the transaction price allocated to construction contracts that are partially or fully unsatisfied as at the end of period	10,918,131	11,964,868

11. Inventories

Details of inventories as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>						
	June 30, 2019			December 31, 2018		
	Acquisition cost	Valuation allowance	Carrying amount	Acquisition cost	Valuation allowance	Carrying amount
Work in process (*)	1,063,476	(163,425)	900,051	1,043,378	(233,897)	809,481
Raw materials	344,255	(29,890)	314,365	433,419	(41,138)	392,281
Supplies	16,479	-	16,479	15,494	-	15,494
Goods in transit	70,970	-	70,970	116,612	-	116,612
Total	1,495,180	(193,315)	1,301,865	1,608,903	(275,035)	1,333,868

(*) During the year ended December 31, 2018, contracts of two ships under construction were cancelled due to financial condition of customer. The Company has reclassified the corresponding contract assets 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.

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12. Other Assets

12.1 Details of other assets as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>				
	June 30, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
Advance payments	554,648	-	408,620	-
Prepaid construction costs	1,350	-	645	-
Prepaid expenses	21,525	6,447	20,069	6,313
Incremental costs of obtaining a contract	51,747	-	31,142	-
Other investment assets	-	3,505	-	5,817
Others	26,142	-	35,894	-
Total	655,412	9,952	496,370	12,130

12.2 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.

<i>In millions of Korean won</i>	
	June 30, 2019
Assets recognized from incremental costs of obtaining a contract as at June 30, 2019	51,747
Amortization and impairment loss recognized as cost during the period	(2,994)

Above assets recognized from incremental costs of obtaining a contract are expensed in the same manner as recognition of the associated revenue.

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Meanwhile, for the carrying amount of the assets exceeding the expected cost of residual consideration less direct costs not yet recognized as expenses, the Company recognized an accumulated impairment loss of ₩76,339 million for the assets as at December 31, 2018. During current period, the Company recognized the reversal of impairment loss of ₩42,740 million. Therefore, an accumulated impairment loss is ₩33,599 million for the assets as at June 30, 2019.

13. Non-current Assets Held-for-sale

As described in Note 44, 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, 2019 and December 31, 2018, are as follows:

	<i>In millions of Korean won</i>	
	June 30, 2019	December 31, 2018
Construction-in-progress	-	12,914

Non-current asset classified as held for sale are measured at the lower of its book amount and fair value less costs to sell, and the sale has been completed during six-month period ended June 30, 2019.

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14. Investments in Subsidiaries

14.1 Details of the investments in subsidiaries of the Company as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>						
	Location	Main business	June 30, 2019		December 31, 2018	
			Ownership interest (%)	Book value	Ownership interest (%)	Book value
DSME Shandong Co., Ltd.	China	Manufacturing ship parts	100.00	-	100.00	-
DK Maritime S.A.	Panama	Shipping	100.00	-	100.00	-
DSME Far East LLC (*)	Russia	Shipbuilding	-	-	100.00	1
DSME Information and Consulting	Geoje	IT Service	100.00	200	100.00	200
DSME Kazakhstan LLP	Kazakhstan	Repair of ships and technical support	100.00	545	100.00	545
Total				745		746

(*) Completed liquidation during six-month period ended June 30, 2019.

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14.2 Changes in the book value of investment in subsidiaries for the six-month period ended June 30, 2019 and for the year ended December 31, 2018, are as follows:

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>				
	Beginning balance	Acquisition (Disposal)	Others	Ending balance
DSME Far East LLC	1	(1)	-	-
DSME Information and Consulting	200	-	-	200
DSME Kazakhstan LLP	545	-	-	545
Total	746	(1)	-	745

(Year ended December 31, 2018)

<i>In millions of Korean won</i>				
	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
DSME Kazakhstan LLP	-	-	545	545
Total	23,007	-	(22,261)	746

As described in Note 44, 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 ₩22,806 million on certain investments in subsidiaries.

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15. Investments in Associates and Joint Ventures

15.1 Details of investments in associates and joint ventures as at June 30, 2019 and December 31, 2018 are as follows:

<i>In millions of Korean won</i>							
		Location	Main business	June 30, 2019		December 31, 2018	
				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. (*1)	Seoul	Shipping	19.00	2,185	19.00	2,185
	DAEHAN SHIPBUILDING CO., LTD.	Haenam	Ship building	23.35	-	23.35	-
	Welliv Private Investment Joint Company (*2)	Seoul	Private Equity Fund	34.39	9,750	34.39	9,750
	Shinhan Heavy Industries Co., Ltd. (*3)	Ulsan	Manufacturing ship parts	89.22	-	89.22	-
	Samwoo Heavy Industry Co., Ltd. (*3)	Gwangyang	Manufacturing ship parts	100.00	-	100.00	-
	KC LNG Tech Co., Ltd. (*1,4)	Busan	Patents management and licenses business	16.60	2,754	-	-
Joint ventures	SBM Shipyard Ltd.	Angola	Holding company (FPSO engineering and operation)	33.33	-	33.33	-
Total					14,689		11,935

(*1)The Company has classified the investment as an associate as the Company has rights to participate in the decision-making body of the investee company.

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(*2) 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.

(*3) The Company has reclassified the investment in subsidiaries as investment in associates as the Company lost its control over these subsidiaries, due to the commencement of major creditor bank management procedure during the prior period

(*4) The Company has transferred the investment from financial assets at FVOCI to investments in associates as the Company decided that it has significant influence over the investee company.

15.2 Changes in the book amount of the investments in associates and joint ventures for the six-month period ended June 30, 2019 and for the year ended December 31, 2018, are as follows:

(Six-month period ended June 30, 2019)

		<i>In millions of Korean won</i>			
		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
	KC LNG Tech Co., Ltd.	-	-	2,754	2,754
Total		11,935	-	2,754	14,689

(Year ended December 31, 2018)

		<i>In millions of Korean won</i>			
		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
Total		11,935	-	-	11,935

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16. Property, Plant and Equipment

16.1 Details of property, plant and equipment as at June 30, 2019 and December 31, 2018, are as follows:

(June 30, 2019)

<i>In millions of Korean won</i>					
	Land	Buildings	Structures	Machinery	Vehicle
Cost	1,563,699	1,045,732	1,304,263	929,568	175,896
Revaluation surplus	408,751	-	-	-	-
Government grants	-	(5,294)	-	(90)	-
Accumulated depreciation	-	(407,248)	(458,927)	(579,752)	(129,010)
Accumulated impairment losses	(57,092)	(80,508)	(80,179)	(147,437)	(30,631)
Book amount	1,915,358	552,682	765,157	202,289	16,255

<i>In millions of Korean won</i>					
	Ships and aircraft	Tools	Supplies	Construction-in-progress	Total
Cost	187,308	328,601	228,267	103,199	5,866,533
Revaluation surplus	-	-	-	-	408,751
Government grants	-	-	(48)	-	(5,432)
Accumulated depreciation	(104,881)	(211,540)	(153,947)	-	(2,045,305)
Accumulated impairment losses	(3,858)	(100,079)	(46,271)	(11,504)	(557,559)
Book amount	78,569	16,982	28,001	91,695	3,666,988

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(December 31, 2018)

<i>In millions of Korean won</i>						
	Land	Buildings	Structures	Machinery	Vehicle	Ships and aircraft
Cost	1,485,596	1,035,342	1,278,077	945,978	175,511	207,389
Revaluation surplus	408,751	-	-	-	-	-
Government grants	-	(5,365)	-	(95)	-	-
Accumulated depreciation	-	(397,478)	(442,318)	(587,755)	(129,901)	(111,577)
Accumulated impairment losses	(57,092)	(80,548)	(80,179)	(155,032)	(30,969)	(14,012)
Book amount	1,837,254	551,951	755,580	203,096	14,641	81,800

<i>In millions of Korean won</i>					
	Finance lease ships and aircraft (*)	Tools	Supplies	Construction-in-progress	Total
Cost	39,698	331,718	232,351	191,137	5,922,797
Revaluation surplus	-	-	-	-	408,751
Government grants	-	-	(60)	-	(5,520)
Accumulated depreciation	(15,879)	(212,876)	(159,730)	-	(2,057,514)
Accumulated impairment losses	-	(102,404)	(46,822)	(11,504)	(578,562)
Book amount	23,819	16,438	25,739	179,633	3,689,951

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(*) In accordance with Korean IFRS 1116 Leases, finance lease ships and aircraft are stated in Note 17 as at June 30, 2019.

16.2 Changes in property, plant and equipment for the six-month periods ended June 30, 2019 and 2018, are as follows:

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>						
	Beginning balance	Acquisition	Disposals	Depreciation	Others(*)	Ending balance
Land	1,837,254	3,071	-	-	75,033	1,915,358
Buildings	551,951	1,280	(100)	(9,743)	9,294	552,682
Structures	755,580	58	-	(16,641)	26,160	765,157
Machinery	203,096	6,409	-	(10,958)	3,742	202,289
Vehicle	14,641	3,190	-	(1,576)		16,255
Ships and aircraft	81,800	-	-	(3,154)	(77)	78,569
Tools	16,437	2,113	(5)	(1,815)	252	16,982
Supplies	25,739	5,225	(5)	(3,048)	90	28,001
Construction-in-progress	179,633	21,884	-	-	(109,822)	91,695
Total	3,666,131	43,230	(110)	(46,935)	4,672	3,666,988

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

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(Year ended December 31, 2018)

<i>In millions of Korean won</i>						
	Beginning balance	Acquisition	Disposals	Depreciation	Others(*)	Ending balance
Land	1,853,910	2	-	-	(16,658)	1,837,254
Buildings	565,943	390	-	(19,094)	4,712	551,951
Structures	781,611	120	-	(32,192)	6,041	755,580
Machinery	168,649	52,822	(53)	(21,126)	2,804	203,096
Vehicle	7,162	10,441	(61)	(2,902)	1	14,641
Ships and aircraft	126,907	100	-	(6,451)	(38,756)	81,800
Finance lease ships and aircraft	-	-	-	(15,879)	39,698	23,819
Tools	10,787	8,605	(6)	(4,083)	1,134	16,437
Supplies	15,955	14,254	(8)	(4,622)	160	25,739
Construction-in-progress	193,921	63,612	-	-	(77,900)	179,633
Total	3,724,845	150,346	(128)	(106,349)	(78,764)	3,689,950

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

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16.3 Line items including depreciation (including depreciation on investment properties) in the statements of profit or loss for the six-month periods ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>		
	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
Cost of sales	45,265	51,662
Selling and administrative expenses	723	560
Research and development expenses	1,005	301
Total	46,993	52,523

16.4 Contractual Commitments for the Acquisition of Property, Plant and Equipment

According to the agreement entered with Seoul National University in 2015, the Company constructs tank facilities for testing purpose in Siheung Campus, and transfers its ownership in 25 years. Details of contractual commitments for the acquisition of property, plant and equipment as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>		
	June 30, 2019	December 31, 2018
Property, plant and equipment	38,976	40,719

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17. Right-of-use Assets

17.1 Changes in right-of-use assets for the six-month period ended June 30, 2019, are as follows:

<i>In millions of Korean won</i>					
	Beginning balance	Acquisition	Depreciation	Others(*)	Ending balance
Lease-Buildings	21,433	2,960	(5,506)	(1,422)	17,465
Lease- Structures	125	-	(18)	(107)	-
Lease- Machinery	29,256	10,700	(11,277)	(1,490)	27,189
Lease- Ships and aircraft	27,234	-	(9,570)	1	17,665
Lease- Vehicle	2,633	1,659	(901)	(419)	2,972
Lease-Land	952	1,845	(728)	(816)	1,253
Total	81,633	17,164	(28,000)	(4,253)	66,544

(*) Others consist of the disposal of right-of-use assets and the difference in connection with reassessment of right-of-use assets.

17.2 Details of lease liabilities as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>		
	June 30, 2019	December 31, 2018
Current liabilities	57,490	-
Non-current liabilities	12,238	24,145
Total	69,728	24,145

17.3 In connection with lease, cash outflows and total interest expenses are ₩25,120 million and ₩1,630 million, respectively, for the six-month period ended June 30, 2019.

17.4 The expenses relating to short-term leases and leases of low-value assets are ₩91 million and ₩253 million, respectively, for the six-month period ended June 30, 2019. These expenses are included in cost of sales and administrative expenses.

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17.5 Residual maturity of lease liabilities in contracts is as follows:

<i>In millions of Korean won</i>			
	Less than 1 year	1 year – 5 years	Total
Lease liabilities	57,490	12,238	69,728

18. Pledged Assets

18.1 As at June 30, 2019, the Company's assets except deposits (Note 8) that are pledged as collaterals for performance guarantee and others are summarized as follows:

<i>In millions of Korean won, thousands of USD</i>					
Assets	Book amount	Pledged amount	Guaranteed	Borrowings amount	Lender
PPE and investment properties	3,364,003	3,735,200	Borrowings in local currency	625,559	KDB and KEXIM
		USD 880,000	Borrowings in foreign currency	USD 1,036,685	
Financial assets at fair value through profit or loss	23,662	25,858	Performance guarantee	-	KDIA and Machinery Financial Cooperative
Total	3,387,665	3,761,058		625,559	
		USD 880,000		USD 1,036,685	

18.2 Significant guarantees provided to other than the Company's related parties as at June 30, 2019, are as follows:

<i>In, thousands of USD</i>		
Provided for	Guarantee Amount	Lender
Korea Line Corp.	USD 37,668	KDB and others

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18.3 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:

<i>In thousands of USD and EUR</i>				
Provided by	Guarantee Limit		Actual warranty balance	
	Currency	Amount	Currency	Amount
KDB	USD	4,700,000	USD	1,477,571
KEXIM	USD	3,273,034	USD	2,410,602
			EUR	9,348
Other financial institutions	USD	270,807	USD	268,054

In addition to the above, the Company is provided with performance guarantee of ₩2,081,129 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 45).

19. Investment Properties

19.1 Investment properties as at June 30, 2019 and December 31, 2018, are as follows:

(June 30, 2019)

<i>In millions of Korean won</i>			
	Land	Buildings	Total
Acquisition cost	4,661	8,473	13,134
Accumulated depreciation	-	(4,045)	(4,045)
Accumulated impairment loss	-	(1,353)	(1,353)
Book amount	4,661	3,075	7,736

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(December 31, 2018)

<i>In millions of Korean won</i>			
	Land	Buildings	Total
Acquisition cost	4,661	8,473	13,134
Accumulated depreciation	-	(3,986)	(3,986)
Accumulated impairment loss	-	(1,353)	(1,353)
Book amount	4,661	3,134	7,795

19.2 Changes in the book amounts of investment properties for the six-month period ended June 30, 2019 and for the year ended December 31, 2018, are as follows:

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>			
	Land	Buildings	Total
Beginning balance	4,661	3,134	7,795
Depreciation	-	(59)	(59)
Ending balance	4,661	3,075	7,736

(Year ended December 31, 2018)

<i>In millions of Korean won</i>			
	Land	Buildings	Total
Beginning balance	4,661	3,253	7,914
Depreciation	-	(119)	(119)
Ending balance	4,661	3,134	7,795

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19.3 Income generated from the investment properties for the six-month periods ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>		
	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
Rental revenue	81	81

19.4 Fair values of the investment properties as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>				
	June 30, 2019		December 31, 2018	
	Book value	Fair value	Book value	Fair value
Land	4,661	6,792	4,661	6,992
Buildings	3,075	3,300	3,134	3,689
Total	7,736	10,092	7,795	10,681

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20. Intangible Assets

20.1 Intangible assets as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>		
	June 30, 2019	December 31, 2018
Acquisition cost	48,564	40,382
Accumulated depreciation and impairment	(31,053)	(23,373)
Book amount	17,511	17,009

20.2 Changes in book amounts of intangible assets for the six-month period ended June 30, 2019 and for the year ended December 31, 2018, are as follows:

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>					
	Beginning balance	Acquisition(disposal)	Amortization	Impairment loss	Ending balance
Intellectual property rights	2,956	768	(216)	-	3,508
Development costs	13,417	23	(73)	-	13,367
Others	636	-	-	-	636
Total	17,009	791	(289)	-	17,511

(Year ended December 31, 2018)

<i>In millions of Korean won</i>					
	Beginning balance	Acquisition(disposal)	Amortization	Impairment loss	Ending balance
Intellectual property rights	1,178	2,179	(401)	-	2,956
Development costs	11,389	2,214	(186)	-	13,417
Others	771	(20)	-	(115)	636
Total	13,338	4,373	(587)	(115)	17,009

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21. Trade and Other Payables

Trade and other payables as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>				
	June 30, 2019		December 31, 2018	
	Current	Non-current	Current	Non-current
Trade payables (*)	664,121	-	663,265	-
Accounts payable	248,221	56,808	223,979	66,224
Accrued expenses	139,221	-	171,388	-
Deposits received	18,716	-	17,248	-
Total	1,070,279	56,808	1,075,880	66,224

(*) Trade payables are unsecured and are usually paid within 45~90 days of recognition. The carrying amounts of trade and other payables, and accrued expenses are considered to be the same as their fair values, due to their short-term nature.

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22. Debentures

Details of the book amount of debentures as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>				
	Maturity date	Annual interest rate (%)	June 30, 2019	December 31, 2018
4-2 nd non-guarantee bonds	April 21, 2023	1.00	149,102	149,102
5-2 nd non-guarantee bonds	April 21, 2023	1.00	98,635	98,635
6-1 st non-guarantee bonds	April 21, 2023	1.00	213,113	213,113
6-2 nd non-guarantee bonds	April 21, 2023	1.00	29,316	29,316
7 th non-guarantee bonds	April 21, 2023	1.00	148,768	148,768
Commercial papers	April 21, 2023	1.00	101,894	101,894
Total			740,828	740,828
Less: Discount on debentures			(139,971)	(165,267)
Book value			600,857	575,561

As described in Note 45, 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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23. Borrowings

23.1 Details of the book amount of short-term borrowings as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>					
	Creditor	Description	Annual interest rate (%)	June 30, 2019	December 31, 2018
Short-term borrowings in Korean won	Kookmin Bank	Overdraft	-	3,988	4,843
	KDB	General loan	3.00	432,659	532,659
	KEXIM	Export financing loan/restructure operation loan	3.00	192,900	292,900
Sub-total				629,547	830,402
Short-term borrowings in foreign currencies	KDB and others	USANCE	6ML+0.3 and others	404,234	450,993
	KEXIM	Export financing loan	3ML+2.65	137,855	133,243
Sub-total				542,089	584,236
Total				1,171,636	1,414,638

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23.2 Details of the book amount of long-term borrowings as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>					
	Creditor	Description	Annual interest rate (%)	June 30, 2019	December 31, 2018
Long-term borrowings in Korean won	Korea Housing Guarantee	General loan	-	105	109
	Kookmin Bank	General loan	1.00	20,000	20,000
	KEB	General loan	1.00	91,912	91,912
	Woori Bank	General loan	1.00	19,972	19,972
	Shinhan Bank	General loan	1.00	16,000	16,000
Sub-total				147,989	147,993
Long-term borrowings in foreign currencies	KDB	Operating loan	3ML+2.55 and others	844,464	816,213
	Korea Energy Agency	Energy special loan	-	13,037	12,627
	KEXIM	Overseas investment loan	6ML+3.05 and others	18,220	17,610
		Export financing loan	3ML+2.65 and others	185,658	179,447
		Operating loan	1.00	13,040	12,604
Woori Bank	Operating loan	1.00	5,589	5,402	
Sub-total				1,080,008	1,043,903
Total				1,227,997	1,191,896
Less: Current portion				(203,882)	(197,061)
Less: Discount on loans				(55,559)	(58,933)
Book value				968,556	935,902

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The Company's property, plant and equipment are pledged as collaterals in relation to above borrowings (Note 18).

24. Other Current Liabilities

Other current liabilities as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>		
	June 30, 2019	December 31, 2018
Advance received	-	2,738
Withholdings	120,332	122,355
Total	120,332	125,093

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

25.1 As at June 30, 2019 and December 31, 2018, amounts recognized in the separate statement of financial position are as follows:

<i>In millions of Korean won</i>		
	June 30, 2019	December 31, 2018
Present value of defined benefit obligation	406,298	418,410
Fair value of plan assets	(370,228)	(277,618)
Net defined benefit liabilities	36,070	140,792
Other long-term employee benefit liabilities	20,755	21,692

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25.2 Changes in net defined benefit liability and other long-term employee benefit liabilities for the six-month period ended June 30, 2019 and for the year ended December 31, 2018, are as follows:

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>				
	Present value of defined benefit obligation	Fair value of plan assets	Other long-term employee benefit obligation	Total
Beginning balance	418,410	(277,618)	21,692	162,484
Current service cost	25,566	-	589	26,155
Interest expense (interest income)	4,905	(3,254)	256	1,907
Sub-total	448,881	(280,872)	22,537	190,546
Remeasurements:	-	-	-	-
Return on plan assets	-	1,127	-	1,127
Sub-total	-	1,127	-	1,127
Contributions	-	(111,300)	-	(111,300)
Benefit payments	(42,583)	20,817	(1,782)	(23,548)
Ending balance	406,298	(370,228)	20,755	56,825

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<i>In millions of Korean won</i>				
	Present value of defined benefit obligation	Fair value of plan assets	Other long-term employee benefit obligation	Total
Beginning balance	388,870	(252,381)	21,903	158,392
Current service cost	47,566	-	1,220	48,786
Interest expense (interest income)	11,046	(7,168)	621	4,499
Sub-total	447,482	(259,549)	23,744	211,677
Contributions				
Return on plan assets	-	3,854	-	3,854
Actuarial gains (losses) arising from change in demographic assumptions	438	-	(773)	(335)
Actuarial gains (losses) arising from change in financial assumptions	22,240	-	522	22,762
Actuarial gains (losses) arising from experience adjustments	14,291	-	(201)	14,090
Sub-total	36,969	3,854	(452)	40,371
Contributions	-	(54,200)	-	(54,200)
Benefit payments	(66,041)	32,277	(1,600)	(35,364)
Ending balance	418,410	(277,618)	21,692	162,484

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26. Provisions

Changes in provisions for construction warranties and other provisions for the six-month period ended June 30, 2019 and for the year ended December 31, 2018, are as follows:

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>					
	Current		Non-current		Total
	Provision for construction losses	Other provisions	Provision for construction warranties	Other provisions	
Beginning balance	535,561	23,179	306,814	553,374	1,418,928
Additional provisions (Reversal provisions)	(261,195)	50,000	(2,553)	(45,325)	(259,073)
Used during period	-	(23,196)	(63,193)	(43,934)	(130,323)
Ending balance	274,366	49,983	241,068	464,115	1,029,532

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(Year ended December 31, 2018)

<i>In millions of Korean won</i>					
	Current		Non-current		Total
	Provision for construction losses	Other provisions	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)	77,870	23,179	170,560	(40,179)	231,430
Used during period	-	-	(17,664)	70,038	52,374
Ending balance	535,561	23,179	306,814	553,374	1,418,928

27. 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, 2019, the estimated average annual income tax rate used for the year ending December 31, 2019, is 0.05%.

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28. Derivative Instruments

Details of derivative instruments held for hedging and trading purposes as at June 30, 2019, and December 31, 2018, are as follows:

(June 30, 2019)

<i>In millions of Korean won</i>							
	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)	(45,663)	(45,140)	109,793	7,642	-	21,713	160,371
For trading(*2)	-	(33,778)	-	-	-	-	2,531
Total	(45,663)	(78,918)	109,793	7,642	-	21,713	162,902

(*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, 2019, and December 31, 2018.

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

(December 31, 2018)

<i>In millions of Korean won</i>							
	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)	(37,241)	(10,773)	22,749	12,055	248	20,360	45,778
For trading(*2)	-	(18,001)	-	-	-	382	89
Total	(37,241)	(28,774)	22,749	12,055	248	20,742	45,867

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29. 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, 2019 and December 31, 2018.

The Company's total number of authorized shares, issued shares and par value per share are 800,000,000, 107,205,752 and ₩5,000, respectively, as at June 30, 2019 and December 31, 2018.

<i>In millions of Korean won</i>			
Date	Details	Number of shares (unit: shares)	Share capital
January 1, 2018	Beginning balance	106,656,288	538,281
March 14, 2018	Debt to equity swap	549,464	2,747
December 31, 2018	Ending balance	107,205,752	541,028
January 1, 2019	Beginning balance	107,205,752	541,028
June 30, 2019	Ending balance	107,205,752	541,028

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30. Retained Earnings

30.1 Retained earnings as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>		
	June 30, 2019	December 31, 2018
Legal reserves (*)	81,080	81,080
Reserve for research and human resource development	-	20,000
Reserve for facility expansion	3,450,000	3,450,000
Reserve for dividend equalization	70,000	70,000
Accumulated deficits before disposition	(2,727,964)	(3,079,566)
Total	873,116	541,514

(*) 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.

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31. Other Contributed Capital and Components of Other Capital

31.1 Other contributed capital as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>			
		June 30, 2019	December 31, 2018
Other contributed capital	Share premium	10,437	10,437
	Others(*)	(10,694)	(10,694)
	Sub-total	(257)	(257)
Components of other capital	Revaluation surplus of property, plant and equipment	324,700	324,700
	Loss on valuation of financial assets at fair value through other comprehensive income	(6,683)	(8,052)
	Sub-total	318,017	316,648

(*) Others include ₩1,060 million of other contributed capital, which qualifies as equity even though actual debt-to-equity swap is not completed as the number and price of issuing shares are fixed as at June 30, 2019.

31.2 Hybrid capital instrument as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>		
	June 30, 2019	December 31, 2018
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)	48,057	48,057
Total	2,332,832	2,332,832

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(*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.

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	KRW 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.
Interest payment	Amount: 3% until June 28, 2017, 1% until December 31, 2021, 0.25% added every year on standard yield of 5 year maturity public unsecured corporate bonds. Payment: Pay half yearly, 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 December 31, 2021
Conversion condition	KRW 40,350 per share
Trigger clause	The liquidation of the issuing company

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(*2) As 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	KRW 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
Interest payment	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 half yearly, 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 December 31, 2021
Conversion condition	KRW 40,350 per share
Trigger clause	The liquidation of the issuing company

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(*3) As 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	KRW 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.
Interest payment	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 half yearly, 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 December 31, 2021
Conversion condition	KRW 40,350 per share
Trigger clause	The liquidation of the issuing company

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32. Earnings Per Share

32.1 Basic earnings per share for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

<i>In Korean won</i>				
	Six-month period ended June 30, 2019		Six-month period ended June 30, 2018	
	3 Months	6 Months	3 Months	6 Months
Profit for the period	131,664,732,130	332,728,639,643	321,368,484,226	561,816,518,168
Paid interest of hybrid capital instrument (*)	(5,869,270,180)	(11,788,933,870)	(5,874,884,210)	(11,615,417,090)
Profit on ordinary shares	125,795,461,950	320,939,705,773	315,493,600,016	550,201,101,078
Weighted average number of ordinary shares outstanding	107,189,545 shares	107,189,545 shares	107,189,545 shares	106,970,974 shares
Basic earnings per share	1,174	2,994	2,943	5,143

(*) Interest payable related to hybrid capital instrument ₩11,788 million (accumulated: ₩46,822 million) is included as at June 30, 2019.

32.2 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, 2019 and 2018, respectively, are as follows:

(Three-month period ended June 30, 2019)

<i>In shares</i>						
	Issued shares	Treasury shares	Outstanding shares	Number of days	Accumulated number of shares	Weighted average number of ordinary shares outstanding
Apr. 1, 2019	107,205,752	(16,207)	107,189,545	91	9,754,248,595	107,189,545
Total				91	9,754,248,595	107,189,545

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(Six-month period ended June 30, 2019)

<i>In shares</i>						
	Issued shares	Treasury shares	Outstanding shares	Number of days	Accumulated number of shares	Weighted average number of ordinary shares outstanding
Jan. 1, 2019	107,205,752	(16,207)	107,189,545	181	19,401,307,645	107,189,545
Total				181	19,401,307,645	107,189,545

(Three-month period ended June 30, 2018)

<i>In shares</i>						
	Issued shares	Treasury shares	Outstanding shares	Number of days	Accumulated number of shares	Weighted average number of ordinary shares outstanding
Apr. 1, 2018	107,205,752	(16,207)	107,189,545	91	9,754,248,595	107,189,545
Total				91	9,754,248,595	107,189,545

(Six-month period ended June 30, 2018)

<i>In shares</i>						
	Issued shares	Treasury shares	Outstanding shares	Number of days	Accumulated number of shares	Weighted average number of ordinary shares outstanding
Jan. 1, 2018	106,656,288	(16,207)	106,640,081	72	7,678,085,832	42,420,364
Mar. 14, 2018	107,205,752	(16,207)	107,189,545	109	11,683,660,405	64,550,610
Total				181	19,361,746,237	106,970,974

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32.3 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>In Korean won</i>			
	Six-month period ended June 30, 2019		Six-month period ended June 30, 2018	
	3 months	6 months	3 months	6 months
Profit on ordinary shares	125,795,461,950	320,939,705,773	315,493,600,016	550,201,101,078
Interest of convertible bonds (hybrid capital instrument)	5,869,270,180	11,788,933,870	5,874,884,210	11,615,417,090
Profit used to determine diluted EPS	131,664,732,130	332,728,639,643	321,368,484,226	561,816,518,168
Weighted average number of ordinary shares outstanding	107,189,545 Shares	107,189,545 Shares	107,189,545 Shares	106,970,974 Shares
Adjustment:				
Assumption of conversion of permanent bonds	57,814,925 Shares	57,814,925 Shares	88,464,683 Shares	75,798,744 Shares
Weighted average number of ordinary shares outstanding	165,004,470 Shares	165,004,470 Shares	195,654,228 Shares	182,769,718 Shares
Diluted earnings per share	798	2,016	1,643	3,074

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33. Selling and Administrative Expenses

33.1 Details of selling expenses for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>				
	Six-month period ended		Six-month period ended	
	June 30, 2019		June 30, 2018	
	3 months	6 months	3 months	6 months
Advertising	479	854	221	458
Freight and custody charges	1	1	-	12
Commission	11,230	22,426	16,422	30,634
Sales promotional expenses	13	13	-	-
Total	11,723	23,294	16,643	31,104

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33.2 Details of administrative expenses for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>				
	Six-month period ended June 30, 2019		Six-month period ended June 30, 2018	
	3 months	6 months	3 months	6 months
Salaries	11,705	24,494	10,968	22,188
Post-employment benefits	924	1,837	842	1,790
Employee benefits	3,392	6,035	2,734	5,325
Rental expenses	411	834	1,232	2,438
Depreciation	371	723	298	560
Right-in-use assets depreciation	1,173	2,333	-	-
Repairs and maintenance	(5,174)	6,260	970	2,711
Travel expense	838	1,399	822	1,414
Training expense	1,127	1,574	293	502
Administrative service costs	2,801	5,803	2,192	7,059
Tax and due	774	1,221	-	-
Others	(27,197)	(24,350)	(33,637)	(31,293)
Total	(8,855)	28,163	(13,286)	12,694

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34. 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, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>				
	Six-month period ended		Six-month period ended	
	June 30, 2019		June 30, 2018	
	3 months	6 months	3 months	6 months
Interest income				
Deposits	8,183	11,241	1,792	3,884
Trade and other receivables	19,351	31,773	9,180	12,156
Held-to-maturity financial assets	-	-	2	4
Interest income total	27,534	43,014	10,974	16,044
Dividend income				
Financial assets at fair value through other comprehensive income	-	134	6,959	7,106
Investments in subsidiaries and associates	2,324	2,433	-	109
Dividend income total	2,324	2,567	6,959	7,215
Reversal of financial guarantee liabilities				
Clients and others	129	273	30,222	30,222
Gain on debt restructuring				
Gain on debt restructuring	-	-	-	10
Financial income total	2,453	2,840	37,181	37,447
Interest expenses				
Bank overdrafts and interests on Loans	41,237	83,299	41,723	79,005
Total interest expenses	41,237	83,299	41,723	79,005

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<i>In millions of Korean won</i>				
	Six-month period ended		Six-month period ended	
	June 30, 2019		June 30, 2018	
	3 months	6 months	3 months	6 months
Financial guarantee liabilities				
Subsidiaries and others	-	-	(503)	-
Total financial expenses	41,237	83,299	41,219	79,005
Financial income(expenses), net	(11,250)	(37,445)	6,936	(25,514)

35. Foreign Exchange Gains and Losses

Details of foreign exchange gains and losses for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>				
	Six-month period ended		Six-month period ended	
	June 30, 2019		June 30, 2018	
	3 months	6 months	3 months	6 months
Gain on foreign currency transactions	107,968	154,415	86,703	115,283
Gain on foreign exchange translations	5,693	45,220	85,783	98,800
Total foreign exchange gains	113,661	199,635	172,486	214,083
Loss on foreign currency transactions	57,545	71,128	26,283	95,294
Loss on foreign exchange translations	37,074	69,220	66,955	89,049
Total foreign exchange losses	94,619	140,348	93,238	184,343
Net foreign exchange gains	19,042	59,287	79,248	29,740

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36. Other Non-Operating Income and Expenses

36.1 Details of other non-operating income for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>				
	Six-month period ended		Six-month period ended	
	June 30, 2019		June 30, 2018	
	3 months	6 months	3 months	6 months
Gain on valuation of firm commitment	80,830	147,667	92,410	94,249
Gain on valuation of currency forward	20,899	20,899	(36,248)	212
Gain on currency forward transactions	207	1,016	2,764	5,273
Gain on disposal of property, plant and equipment	1,413	1,746	634	798
Others	6,349	17,445	8,683	23,485
Total	109,698	188,773	68,243	124,017

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36.2 Details of other non-operating expenses for the three-month and six-month periods ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>				
	Six-month period ended		Six-month period ended	
	June 30, 2019		June 30, 2018	
	3 months	6 months	3 months	6 months
Loss on valuation of firm commitment	10,259	10,298	(28,358)	637
Loss on valuation of currency forward	79,958	160,862	109,242	109,242
Loss on currency forward transactions	56,823	77,340	9,845	13,294
Loss on disposal of property, plant and equipment	7	9	5	6
Impairment loss of property, plant and equipment	-	-	(434)	(434)
Impairment loss of investment properties	-	-	-	43
Contingency loss	13,373	13,715	-	-
Others	61	132	(452)	10,219
Total	160,481	262,356	89,848	133,007

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37. Expenses by Nature

Expenses classified by nature for the six-month periods ended June 30, 2019 and 2018, are as follows:

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>			
	Selling and administrative expenses, research and development expenses and impairment loss	Cost of sales	Total
Changes in inventories	-	25,090	25,090
Purchase of raw materials	-	1,878,362	1,878,362
Employee benefits	38,822	390,616	429,438
Depreciation	1,728	45,265	46,993
Right-in-use assets depreciation	2,333	25,667	28,000
Amortization	5	284	289
Commission	22,433	31,117	53,550
Travel	1,606	1,857	3,463
Administrative service fees	1,301	32,014	33,315
Rent	872	11,819	12,691
Amount paid to subcontractor	-	1,009,780	1,009,780
Others	(27,782)	326,187	298,405
Total	41,318	3,778,058	3,819,376

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(Six-month period ended June 30, 2018)

<i>In millions of Korean won</i>			
	Selling and administrative expenses, research and development expenses and impairment loss	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
Amount paid to subcontractor	-	834,251	834,251
Others	(74,623)	1,080,077	1,005,454
Total	4,492	4,005,072	4,009,564

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38. Related Parties

38.1 Related parties of the Company as at June 30, 2019, are as follows:

	Company
Controlling company	KDB
Subsidiaries (*1)	DSME Shandong Co., Ltd., DK Maritime S.A., DSME Information and Consulting, DSME Kazakhstan LLP
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, KC LNG Tech Co., Ltd.
Joint ventures	SBM Shipyard Ltd.
Other related parties	D&H Solutions AS, PT. DSME Indonesia, DSME Offshore Engineering Center, PAENAL YARD, KC Kazakh B.V., SEYOUNG Academy for middle school students and others, Related parties of KDB and government related parties (KEXIM and others) (*2) and others

(*1) DSME Far East LLC has been excluded from the related parties as liquidation 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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38.2 Significant transactions with the related parties for the six-month periods ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>				
	Company	Transaction	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
Controlling company	KDB	Interest and other income	34,261	7,152
		Interest and other expenses	264,232	129,627
Subsidiaries	DSME Shandong Co., Ltd.	Sales	1,627	-
		Purchases	67,767	27,223
	Other subsidiaries	Sales	66	106
		Purchases	21,782	22,203
		Interest and other income	3	4
		Interest and other expenses	3,238	1,498
Associates and joint ventures	DAEHAN SHIPBUILDING CO., LTD. and others	Sales	2,684	1,625
		Purchases	222,288	182,977
		Interest and other income	683	3,069
		Interest and other expenses	20,958	20,894
Other related parties	KEXIM	Interest and other expenses	19,393	24,366
	Related parties of KDB and others (*)	Sales	320,792	79,359
		Purchases	49,714	30,977

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		Interest and other income	73	5,491
		Interest and other expenses	136	1,152
Total		Sales	325,169	81,090
		Purchases	361,551	263,380
		Interest and other income	35,020	15,717
		Interest and other expenses	307,957	177,537

(*) The Company entered into shipbuilding contracts of nil (2018: ₩1,216,426 million) with Hyundai Merchant Marine Co., Ltd. and its subsidiaries for the six-month period ended June 30, 2019. The Company recognized sales of ₩305,784 million (2018: ₩66,895 million) for the six-month period ended June 30, 2019. As at June 30, 2019, the remaining contract balance amounted to ₩1,050,778 million.

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38.3 Significant financial transactions with the related parties for the six-month periods ended June 30, 2019 and 2018, are as follows:

<i>In millions of Korean won</i>				
	Company	Transaction	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
Controlling company	KDB	Proceeds from borrowings	40,317	48,951
		Redemption of borrowings	100,000	220,000
Subsidiaries	Other subsidiaries	Decrease in loans	-	1,547
		Debt-to-equity swap	-	25
Other related parties	KEXIM	Proceeds from borrowings	-	60,393
		Redemption of borrowings	100,000	220,000
		Debt-to-equity swap (permanent bonds conversion)	-	48,314
	Related parties of KDB and others	Debt acquisition	-	86,275
Total		Proceeds from borrowings	40,317	109,344
		Redemption of borrowings	200,000	440,000
		Decrease in loans	-	1,547
		Debt-to-equity swap	-	25
		Debt-to-equity swap (permanent bonds conversion)	-	48,314
		Debt acquisition	-	86,275

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38.4 Significant receivables from and payables to the related parties as at June 30, 2019 and December 31 2018, are as follows:

(June 30, 2019)

<i>In millions of Korean won</i>						
	Receivables(*1)				Debts	
	Financial instruments and others	Trade receivables and others	Other receivables	Loan and others	Borrowings	Other payables and others
Controlling company:						
KDB	2,077,519	-	24,274	22,535	1,381,437	167,158
Subsidiaries:						
DSME Shandong Co., Ltd.	-	1,055	-	41,990	-	11,095
DK Maritime S.A.	-	84,837	-	-	-	-
Others	-	15	32	-	-	2,992
Associates:						
Daehan Shipbuilding Co., Ltd. and others	-	438	2,880	95,962	15,769	41,862
Joint ventures:						
SBM Shipyard Ltd. and others	-	-	-	183,133	-	-
Other related parties:						
KC Kazakh B.V. and others	-	3,722	-	32,850	-	-
KEXIM (*2)	-	-	-	1,303	409,818	963
Related parties of KDB	3,297	218,568	-	26,711	-	6,379
Total	2,080,816	308,635	27,186	404,484	1,807,024	230,449

(*1) Amount before deduction of provision for impairment loss.

(*2) As described in Note 31, hybrid capital instrument classified as equity were not included in the borrowings.

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(December 31, 2018)

<i>In millions of Korean won</i>						
	Receivables(*1)				Debts	
	Financial instruments and others	Trade receivables and others	Financial instruments and others	Trade receivables and others	Financial instruments and others	Trade receivables and others
Controlling company:						
KDB	883,102	-	24,274	21,299	1,441,119	42,650
Subsidiaries:						
DSME Shandong Co., Ltd.	-	423	4,472	41,370	-	1,453
DK Maritime S.A.	-	84,837	-	-	-	-
Others	-	11	165	-	-	2,833
Associates:						
Daehan Shipbuilding Co., Ltd. and others	-	588	2,401	97,526	-	31,404
Joint ventures:						
SBM Shipyard Ltd. and others	-	-	-	183,133	-	-
Other related parties:						
PAENAL YARD and others	-	3,722	-	32,850	-	-
KEXIM (*2)	-	-	-	1,487	635,804	1,191
Related parties of KDB	3,242	198,293	-	8,464	-	15,244
Total	886,344	287,874	31,312	386,129	2,076,923	94,775

(*1) Amount before deduction of provision for impairment loss.

(*2) As described in Note 31, 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, 2019 and for the year ended December 31, 2018, are as follows:

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>				
	Beginning balance	Impairment loss(reversal)	Others(*)	Ending balance
Trade receivables	88,558	(121)	-	88,437
Other receivables	2,238	-	1	2,239
Loans and others	299,978	-	-	299,978
Total	390,774	(121)	1	390,654

(Year ended December 31, 2018)

<i>In millions of Korean won</i>				
	Beginning balance	Impairment loss	Others(*)	Ending balance
Trade receivables	163,503	2,967	(77,912)	88,558
Other receivables	376,914	2,238	(376,914)	2,238
Loans and others	1,004,676	427	(705,125)	299,978
Total	1,545,093	5,632	(1,159,951)	390,774

(*) 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. Also, the Company wrote off ₩987,377 million and ₩11,793 million of trade receivables and others due to disposal of DW Mangalia Heavy Industries S.A. and PT.DSME ENR CEPU, subsidiaries of the Company.

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38.5 Key management compensation for the three-month and six-month periods ended June 30, 2019 and 2018, is as follows:

<i>In millions of Korean won</i>				
	Six-month period ended		Six-month period ended	
	June 30, 2019		June 30, 2018	
	3 months	6 months	3 months	6 months
Salaries	267	1,912	203	344
Post-employment benefits	19	37	18	44
Total	286	1,949	221	388

The Company's key management includes directors (including outside directors) who are registered executives and members of the Audit Committee. The Company paid severance amounting to ₩517 million to its key management for the six-month period ended June 30, 2019.

38.6 Significant collaterals and guarantees provided for the related parties as at June 30, 2019, are as follows:

<i>in thousands of USD</i>			
	Provided for	Guaranteed amount	Guarantor
Performance guarantee	DSME Kazakhstan LLP (*1)	8,227	Tengizchevroil LLP (TCO) and others
Performance guarantee	KC Kazakh B.V. (*2)	250	KazMunayGas

(*1) The Company provided performance guarantees related to local construction of Kazakhstan to TCO FGP Module Fabrication.

(*2) 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 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. 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 prior year. (Notes 31 and 45)

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38.7 Significant guarantees provided by related parties as at June 30, 2019, are as follows:

<i>in thousands of USD and EUR</i>				
Guarantor	Detail	Guaranteed amount	Type	Borrowing amount
Controlling company:				
KDB	USANCE	USD 314,400	Short-term borrowings	USD 20,929
	AP BOND and others	USD 4,700,000	-	USD 1,477,571
Other related parties:				
KEXIM	AP BOND and others	USD 3,273,034	-	USD 2,410,602
			-	EUR 9,348
Hyundai Merchant Marine Co., Ltd.	Performance guarantee	USD 418,869	Ship building	-
Total		USD 8,706,303	-	USD 3,909,102
			-	EUR 9,348

38.8 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 right-of-use assets and lease liabilities as at June 30, 2019 is ₩15,879 million and ₩15,987 million, respectively.

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39. Construction Contracts

39.1 Changes in the remaining balance of construction contracts for the six-month period ended June 30, 2019, and for the year ended December 31, 2018, are as follows:

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>					
	Beginning balance	New contracts	Others(*1)	Recognized construction revenue(*2)	Ending balance
Commercial ships	8,151,916	2,010,820	273,195	(2,819,959)	7,615,972
Offshore plant and special ships	3,807,667	3,004	891,247	(1,403,126)	3,298,792
Others	5,286	77	(1,124)	(872)	3,367
Total	11,964,869	2,013,901	1,163,318	(4,223,957)	10,918,131

(*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.

(Year ended December 31, 2018)

<i>In millions of Korean won</i>					
	Beginning balance	New contracts	Others(*1)	Recognized construction revenue(*2)	Ending balance
Commercial ships	8,091,605	6,334,736	252,242	(6,526,667)	8,151,916
Offshore plant and special ships	5,203,669	737,390	839,128	(2,972,520)	3,807,667
Others	9,622	535	(14,034)	9,163	5,286
Total	13,304,896	7,072,661	1,077,336	(9,490,024)	11,964,869

(*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.

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39.2 Details of in-progress construction contracts such as recognized construction profit or loss as at June 30, 2019 and December 31, 2018, are as follows:

(June 30, 2019)

<i>In millions of Korean won</i>				
	Accumulated construction revenue	Accumulated construction cost	Accumulated construction profit(loss)	Reserve(*)
Commercial ships	5,119,905	(5,260,635)	(140,730)	720,257
Offshore plant and special ships	18,409,673	(19,208,930)	(799,257)	-
Others	118,549	(79,824)	38,725	-
Total	23,648,127	(24,549,389)	(901,262)	720,257

(*) Reserve refers to the receivables related to a transferred vessel for which payment term is postponed. The principal and the accrued interest are being collected in accordance with the contract.

(December 31, 2018)

<i>In millions of Korean won</i>				
	Accumulated construction revenue	Accumulated construction cost	Accumulated construction profit(loss)	Reserve(*)
Commercial ships	5,907,686	(6,021,195)	(113,509)	698,725
Offshore plant and special ships	18,382,809	(19,730,780)	(1,347,971)	-
Others	118,299	(79,579)	38,721	-
Total	24,408,794	(25,831,554)	(1,422,759)	698,725

(*) Reserve refers to the receivables related to a transferred vessel for which payment term is postponed. The principal and the accrued interest are being collected in accordance with the contract.

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39.3 Details of due to and from customers for contract work as at June 30, 2019 and December 31, 2018, are as follows:

<i>In millions of Korean won</i>				
	June 30, 2019		December 31, 2018	
	Contract assets(*1)	Contract liabilities(*2)	Contract assets	Contract liabilities
Commercial ships	2,495,335	642,448	2,805,320	690,169
Offshore plant and special ships	570,099	1,373,489	1,544,540	1,162,762
Others	68	23,945	37	22,416
Total	3,065,502	2,039,882	4,349,897	1,875,347

(*1) Incremental costs of obtaining a contract and the loss recognized through the collective assessment are not included in the above contract assets.

(*2) Advance received which is not a construction contract are not included in the above contract liabilities.

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39.4 Contractual details where contract revenue for the six-month period ended June 30, 2019 is more than 5% of sales in prior year, are as follows:

<i>In millions of Korean won</i>								
	Customers	Contract date	Expected completion date(*1) / Completion date	Percentage of Completion (%)	June 30, 2019			
					Contract assets (Due from customers for contract work)		Trade receivables (receivables from construction contracts)	
					Gross	Provision (*2)	Gross	Provision (*2)
Drillship	America	2012-09-27	2020-09-30	99.55%	124,435	-	1	-
Drillship	Africa	2013-10-15	2019-03-15	100.00%	-	-	-	-
Drillship	Africa	2013-10-15	2019-05-15	100.00%	-	-	-	-
Drillship	America	2013-06-24	2021-06-30	99.23%	201,791	-	3	-
FPSO	Oceania	2012-03-08	2019-12-31	98.93%	96,105	-	3,883	-
Fixed Platform	Africa	2012-08-16	2019-12-31	99.55%	-	-	14,143	-
Fixed Platform	Europe	2012-12-21	2019-10-30	97.28%	-	-	20,178	-
Fixed Platform	Asia	2013-05-26	2019-12-30	96.52%	-	-	-	-
Fixed Platform	Asia	2014-10-09	2020-10-01	69.33%	-	-	268,731	-

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	Customers	Contract date	Expected completion date(*1) / Completion date	Percentage of Completion (%)	December 31, 2018			
					Contract assets (Due from customers for contract work)		Trade receivables (receivables from construction contracts)	
					Gross	Provision (*2)	Gross	Provision (*2)
Drillship	America	2012-09-27	2020-09-30	99.55%	113,925	-	-	-
Drillship	Africa	2013-10-15	2019-03-15	100.00%	501,066	(45,441)	-	-
Drillship	Africa	2013-10-15	2019-05-15	100.00%	505,218	(49,591)	-	-
Drillship	America	2013-06-24	2021-06-30	99.23%	195,092	-	-	-
FPSO	Oceania	2012-03-08	2019-12-31	98.93%	109,495	-	10,252	-
Fixed Platform	Africa	2012-08-16	2019-12-31	99.55%	78,435	-	39,418	-
Fixed Platform	Europe	2012-12-21	2019-10-30	97.28%	-	-	23,708	-
Fixed Platform	Asia	2013-05-26	2019-12-30	96.52%	10,423	-	-	-
Fixed Platform	Asia	2014-10-09	2020-10-01	69.33%	-	-	167,434	-

(*1) Expected completion date is the date expected by the Company as at June 30, 2019, 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, 2019, two construction contracts were omitted in the disclosure according to Korean IFRS 1115, article 129.2(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 8, 2019 that this item will not be disclosed in the interim financial statements.

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39.5 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, 2019)

<i>In millions of Korean won</i>						
	Provisions for expected losses	Changes in estimation			Contract Assets (Due from customers contract work)	
		Changes in estimated total contract revenue	Changes in estimated total contract cost	Changes in gain (loss) from construction	Gross amount	Accumulated impairment loss (*)
Commercial ships	202,494	237,248	64,638	136,615	2,495,335	-
Offshore plant and special ships	71,872	545,186	323,849	330,245	570,099	-
Others	-	(452)	6,202	373	68	-
Total	274,366	781,982	394,689	467,233	3,065,502	-

(*) Accumulated impairment loss excludes the loss recognized through the collective assessment.

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(December 31, 2018)

<i>In millions of Korean won</i>						
	Provisions for expected losses	Changes in estimation			Contract assets (Due from customers contract work)	
		Changes in estimated total contract revenue	Changes in estimated total contract cost	Changes in gain (loss) from construction	Gross amount	Accumulated impairment loss
Commercial ships	395,946	(32,795)	(54,561)	195,487	2,805,320	-
Offshore plant and special ships	139,615	878,130	669,354	193,636	1,639,665	(95,125)
Others	-	(12,253)	(900)	(12,253)	37	-
Total	535,561	833,082	613,893	376,870	4,445,022	(95,125)

39.6 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, 2019, for the year ended December 31, 2018, and for the succeeding period are as follows:

(Six-month period ended June 30, 2019)

<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	237,248	64,638	136,615	35,996
Offshore plant and special ships	545,186	323,849	330,245	(108,908)
Others	(452)	6,202	373	(7,027)
Total	781,982	394,689	467,233	(79,939)

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(Year ended December 31, 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	(32,795)	(54,561)	195,487	(173,721)
Offshore plant and special ships	878,130	669,354	193,636	15,140
Others	(12,253)	(900)	(12,253)	900
Total	833,082	613,893	376,870	(157,681)

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, 2019 (December 31, 2018). Contract costs and contract revenue may change in the future.

40. Commitments and Contingencies

40.1 The Company provided 14 blank notes to Korea National Oil Corporation as construction warranty and others at June 30, 2019.

40.2 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 ₩873,531 million as at June 30, 2019. 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.

40.3 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 80 other lawsuits as a defendant with aggregated claim amount of USD 81,015 thousand and ₩237,864 million.

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, 2019. The Company recognized the best estimated loss amounting to ₩581,892 million from pending litigations and performance guarantees as provisions as at June 30, 2019.

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40.4 The Company paid penalty surcharge in accordance with the order of Fair Trade Commission (the "Order") requiring to pay a penalty surcharge and comply with a corrective order, for the violation of Fair Transactions in Subcontracting Act, including the violation of Prohibition against Fixing Unreasonable Subcontract Consideration, etc. In this case, the Company filed for (1) an administrative proceeding with the high court challenging the Order and (2) a stay of the execution of the Order.

While the administrative proceeding for challenging the Order is still under the high court proceeding, the high court partially (as further explained below) granted a stay of the execution of the Order on May 2, 2019, which grant has been appealed by the opposing party on May 8, 2019 and is currently under the Supreme Court proceeding. The partially granted order for stay provides for suspension of the Order, until the final judgment on the administrative proceeding, for: publication of the violation, imposing penalty points, suspension of business and limitation on bidding participation. When the final and conclusive judgment of said proceeding is delivered, there may be a negative impact on the Company's qualification to participate in the bidding process for doing business with public agencies/institutions for a certain period of time.

40.5 The Company's major joint ventures are as follows:

1) 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. However, the Company is considering business withdrawal. The Company recognized the investment in Nigeria oil fields as other investment assets.

2) The Company has invested in Kazakhstan oil fields development project by forming a Korean consortium (5.00% of the Company's shares). However, the Company is considering business withdrawal. 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

3) 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

40.6 As at June 30, 2019, the estimated loss amounting to ₩101,615 million out of the claim amount of ₩122,646 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 26)

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40.7 Details of guaranteed amount to major financial institutions as at June 30, 2019 are as follows:

<i>In millions of Korean won and thousands of USD</i>		
Financial institutions	Details	Amount
KDB and others	Issuance of L/C limit	USD 1,072,800
	Foreign-currency payment guarantee limit	USD 8,243,841
	Borrowing limit	USD 1,041,516
		KRW 3,845,543

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41. Cash Flows from Operating Activities

Cash flows from operating activities for the six-month periods ended June 30, 2019 and 2018, are as follow:

<i>In millions of Korean won</i>		
	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
1. Profit for the period	332,729	561,817
2. Adjustments for	(148,985)	(53,801)
(1) Addition of expenses	549,081	329,116
Post-employment benefits	27,244	25,721
Employee benefits	845	921
Depreciation	46,993	52,523
Right-in-use assets depreciation	28,000	-
Amortization	289	314
Impairment loss	(38,074)	(64,740)
Other impairment losses	9,687	2,351
Loss on valuation of firm commitment	10,298	637
Loss on valuation of currency forward contracts	160,862	109,242
Loss on transactions of currency forward contracts	77,340	-
Loss on disposal of property, plant and equipment	9	6
Loss on use rights assets and liabilities recognition	1	-
Loss on valuation at fair value through profit or loss	5	-
Loss on disposal of investments in subsidiaries	1	-
Impairment loss on investment assets	54	-
Other impairment loss on investment assets	-	43
Interest expenses	54,392	79,006
Loss on foreign currency translation	69,221	89,049
Impairment loss on property, plant and equipment	-	(434)
Income tax expense	160	14,052
Transfer to provision for construction losses	309	-

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<i>In millions of Korean won</i>		
	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
Transfer to provision for construction warranties	17,505	11,931
Transfer to provision for contingency liabilities	51,702	-
Maintenance and repairs	179	96
Loss on valuation of financial assets at fair value through profit or loss	-	8,398
Discount on debentures depreciation	25,295	-
Discount on present value depreciation	3,612	-
Miscellaneous losses	3,152	-
(2) Deduction of income	(698,066)	(382,917)
Reversal of provision for construction warranties	261,504	32,975
Reversal of provision for contingency liabilities	20,058	-
Reversal of provision for construction losses	46,983	71,198
Gain on valuation of firm commitment	147,667	94,249
Gain on valuation of currency forward contracts	21,915	211
Reversal of other impairment losses	5,118	-
Gain on valuation at fair value through profit or loss	247	-
Gain on valuation of financial assets at fair value through profit or loss		7,064
Reversal of impairment loss and other impairment losses	16,065	23,414
Reversal of inventories valuation provision	81,720	-
Gain on disposal of property, plant and equipment	1,746	798
Interest income	43,014	16,044
Dividend income	2,567	7,215
Gain on use rights assets and liabilities recognition	12	-
Reversal of financial guarantee liabilities	273	30,222
Gain on foreign currency translation	45,220	98,800

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<i>In millions of Korean won</i>		
	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
Gain on debt restructuring	-	10
Gain on Foreign currency transaction debt-to-equity swaps	-	717
Miscellaneous gains	3,957	-
3. Changes in working capital	1,225,959	1,029
Trade and other receivables	(80,565)	132,860
Inventories	143,340	(163,665)
Contract assets	1,329,305	81,975
Other current assets	(201,018)	261,720
Non-current trade and other receivables	135,338	1,352
Firm commitment assets	50,325	75,516
Currency forward assets	12,200	24,578
Other non-current assets	(134)	5,312
Trade and other payables	(52,693)	(256,032)
Contract liabilities	230,056	(178,832)
Other current liabilities	1,930	71,915
Non-current trade and other payables	-	(1,331)
Net defined benefit obligation	(134,875)	(20,551)
Provisions	(67,217)	(4,583)
Other provisions	(23,196)	-
Currency forward liabilities	(112,423)	40,861
Firm commitment liabilities	(4,414)	(70,066)
Cash generated from(used in) operations	1,409,704	509,044

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42. Non-Cash Transactions

42.1 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>		
	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
Transfer of borrowings to capital(debt-to-equity swaps)	-	13,170
Transfer of borrowings to hybrid capital instruments	-	48,057
Taking over liabilities of other related parties	-	86,275
Application of new lease policy	57,815	-
Contract assets write off	96,912	-
Transfer of long-term borrowings to current portion of long-term borrowings	-	237,553
Transfer of construction in progress to property, plant and equipment	114,492	3,126
Dividend receivables	2,324	-
Transfer to non-current assets held for sale	-	676

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.

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42.2 The adjustment of liabilities arising from financing activities for the six-month periods ended June 30, 2019 and 2018, are as follows:

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>						
	Beginning balance	Cash flows from financing activities	Exchange differences	Amortization	Transfer and others	Ending balance
Current						
Short-term borrowings	1,414,638	(252,564)	9,562	-	-	1,171,636
Current portion of long-term borrowings	197,061	(4)	6,821	-	4	203,882
Current portion of lease liabilities	57,814	(25,121)	1,155	1,630	22,012	57,490
Sub-total	1,669,513	(277,689)	17,538	1,630	22,016	1,433,008
Non-current						
Long-term borrowings	935,902	-	28,740	3,617	297	968,556
Debentures	575,561	-	-	25,295	-	600,856
Lease liabilities	24,145	-	-	-	(11,907)	12,238
Sub-total	1,535,608	-	28,740	28,912	(11,610)	1,581,650
Total	3,205,121	(277,689)	46,278	30,542	10,406	3,014,658

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<i>In millions of Korean won</i>							
	Beginning balance	Cash flows from financing activities	Exchange differences	Amortization	Debt restructuring (*)	Transfer and others	Ending balance
Current							
Short-term borrowings	1,950,686	(357,589)	28,319	-	(86,275)	86,274	1,621,415
Current portion of long-term borrowings	435,253	(4)	-	-	-	(237,553)	197,696
Sub-total	2,385,939	(357,593)	28,319	-	(86,275)	(151,279)	1,819,111
Non-current							
Long-term borrowings	638,935	-	46,393	2,887	17,255	229,772	935,242
Debentures	530,661	-	-	20,477	(206)	-	550,932
Lease liabilities	-	(8,629)	-	976	-	39,698	32,045
Sub-total	1,169,596	(8,629)	46,393	24,340	17,049	269,470	1,518,219
Total	3,555,535	(366,222)	74,712	24,340	(69,226)	118,191	3,337,330

(*) 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 45).

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43. Segment Information

43.1 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	Sales ratio (%)
Commercial ships	LNGC and others	MARAN GAS MARITIME INC. and others	65.9%
Offshore plants and special ships	Marine steel structure and others	TENGIZCHEVROIL LLP (TCO) and others	33.4%
Others	Energy, service	Various customers	0.7%
Total			100.0%

43.2 Financial information by segment is as follows:

(Six-month period ended June 30, 2019)

<i>In millions of Korean won</i>				
	Commercial ships	Offshore plants and special ships	Others	Total
Sales	2,764,411	1,403,889	29,328	4,197,628
Gross profit	104,787	333,208	(18,425)	419,570

(Six-month period ended June 30, 2018)

<i>In millions of Korean won</i>				
	Commercial ships	Offshore plants and special ships	Others (*)	Total
Sales	3,375,231	1,167,298	26,605	4,569,134
Gross profit	366,256	119,279	78,527	564,062

43.3 The number of major customer who accounts more than 10% of the Company's revenue is two (June 30, 2018: three) and their revenue amount to ₩1,365,874 million and ₩1,734,363 million for the six-month periods ended June 30, 2019 and 2018, respectively.

43.4 The Company does not separately disclose operating income and net income by region and segment and assets and liabilities by segment.

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44. 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.

44.1 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.

44.2 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.

44.3 Impairment loss on assets including investments in subsidiaries

During the year ended December 31, 2018, the Company recognized impairment losses on investments in subsidiaries of ₩22,806 million. Also, the Company have prompted restructure of its business to stabilize its financial position. The Company completed disposal of investment in DSEC Co., Ltd., DSME Construction Co., Ltd., Welliv Corp, Dewind Co., DW Mangalia Heavy Industries S.A., PT. DSME ENR CEPU 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 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

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progress (Note 45). 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.

45. 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.

45.1 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
Debentures (*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
Total	3,920,290	3,018,541	901,281	468

(*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.

(*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.

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(*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. (Note 31)

(*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, 2019.

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.

45.2 Debt-to-equity swaps and changes in terms

1) Debt to equity swaps

	Details
Number of shares	41,775,998 shares(*)
Types of share issued	Ordinary shares
Issue price	KRW 40,350
Sale restrictions	None

(*) 147,206 shares (assuming conversion rate of 50%) which was not converted to investment as at June 30, 2019, were recognized as other paid-in capital.

2) 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

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3) 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	1.00%	1.00%
Applicable period	6 years	10 years

46. Changes in Accounting Policies

As explained in Note 2, the Company has applied Korean IFRS 1116 Leases from January 1, 2019. In accordance with the transitional provisions in Korean IFRS 1116, comparative figures have not been restated. The application of Korean IFRS 1116 has impact on the financial statements as follows:

The application of Korean IFRS 1116 recognized lease liabilities in relation to leases that were previously classified as operating leases in accordance with Korean IFRS 1017. These liabilities were measured at the present value of the lease payments, discounted at the lessee's incremental borrowing interest rate on January 1, 2019. The weighted average incremental borrowing rate applied to lease liabilities is 3.26% on January 1, 2019.

The difference between the discounted operating lease commitments and lease liabilities recognized at the date of initial application is as follows:

<i>In millions of Korean won</i>	
	Amount
Announced operating lease contracts at December 31, 2018	59,775
Amount discounted with incremental borrowing rate	(1,960)
Financial lease liabilities recognized at December 31, 2018	24,145
Lease liabilities recognized at January 1, 2019	81,959

Right-of use assets are measured at the same amount as the lease liabilities by adjusting for advance or unpaid lease payments in respect of lease recognized in the statement of financial position as at December 31, 2018. As a result, property, plant and equipment and lease liabilities increased by ₩57,816 million, respectively, on January 1, 2019.

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The Company adopted following practical expedients when applying Korean IFRS 1116 at the date of initial application:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- A lease for which the lease term ends within 12 months of the date of initial application is accounted for the same manner as a short-term lease
- Excluding initial direct costs from the measurement of the right-of-use assets at the date of initial application
- Using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease

The Company does not apply Korean IFRS 1116 to contracts that were not previously identified as containing a lease applying Korean IFRS 1017 and Interpretation of Korean IFRS 2104.

47. Capital Increase with Consideration by Allotment to the Third Party for the Change of Governance

The Company decided to issue 42,750,877 ordinary shares with the resolution of the Company's Board of Directors on January 31, 2019. This capital increase with consideration will be executed according to the basic agreements entered among Hyundai Heavy Industries Co., Ltd. (HHIC), Hyundai Heavy Industries Holdings Co., Ltd. and the Korean Development Bank (KDB) on January 31, 2019, as well as the new share subscription agreement entered between the Company and HHIC on the same date, in relation to the sale of the Company's shares held by KDB, the Company's largest shareholder.

This capital increase is expected to be executed when certain conditions are satisfied such as the approval from the Fair Trade Commission (including overseas related agencies) and the approvals from KDB and HHIC on the business combination based on the in-kind contribution agreement. In addition, the contract may be terminated at the commencement of the rehabilitation or bankruptcy procedure in accordance with the Act on the Debtor Rehabilitation and Bankruptcy

48. Events After the Reporting Period

The Company reversed contingent provision of ₩69,933 million in accordance with the Supreme Court's ruling on July 25, 2019 that there is no debt for ATS-II compensation of deferment.